

CURRENT HISTORY

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MARCH, 1988

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Coming Next Month

Japan

April, 1988

The new government led by Noboru Takeshita and the internationalization of the Japanese economy are among the topics discussed in our April issue on Japan. Also in this issue: technological developments; energy policy; Japanese relations with the United States and China; the labor movement in Japan; and changes in military policy.

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Current History

MARCH, 1988

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Our issue on Canada focuses on the impact the Free Trade Agreement with the United States will have on such diverse areas of Canadian society as politics, foreign policy, and the agricultural, industrial, and energy sectors. As noted in our lead article, this "is a far-sighted agreement that is good for both countries. It is a base from which to chart world trade relations into the twenty-first century."

Canadian Relations with the United States

BY CHARLES F. DORAN

Professor of International Relations, School of Advanced International Studies, Johns Hopkins University

Nor since the days of Mackenzie King and Franklin Roosevelt have Canada and the United States been on such cordial terms. Yet there is a difference. King and Roosevelt built a wartime relationship out of very close personal ties.¹ There has been some malarkey about the significance of common Irish backgrounds and no one has suggested that Prime Minister Brian Mulroney and President Ronald Reagan do not like each other. But the relationship between Canada and the United States today is at once more mature and more interdependent, more complex and more deeply institutional, more culturally sensitive and yet more reinforcing than the previous Canadian-United States connection.

In the late twentieth century, Canada and the United States find themselves undertaking what Prime Minister Mackenzie King and President Harry Truman, for example, could only contemplate. Yet these accomplishments have not come without some internal political strife in Washington or in Canada. Few great projects are easy victories.

At various times in the history of Canadian-United States relations, under John Diefenbaker and under the latter Pierre Elliott Trudeau regimes, for instance, tensions between the governments rose far higher than the average. Tensions are well below the average today. Under previous governments, furthermore, the bilateral bargaining agenda tended to break down along two very separate dimensions. Sometimes one agenda, usually the Canadian, was much longer than the other. Today the

agendas are reciprocal and comparatively short.

At the top of the list is the free trade issue. The monumental bilateral Free Trade Agreement (FTA) will go to the United States Congress for approval in the spring of 1988. Next is the debate over Canadian sovereignty and security. Finally, the problems of acid rain still trouble both countries and cloud the bargaining agenda.

Free trade between Canada and the United States came about for reasons idiosyncratic to each country. The United States has long been interested in a comprehensive trade agreement with both Canada and Mexico. Ill-fated from the beginning, the North American accord notion, born of election politics in both parties during the 1980's, proposed the creation of a free trade area. But from an international perspective, its timing was terrible. It also included characteristics guaranteed to frighten both Ottawa and Mexico City, namely rumblings about joint Cabinet seats and partial political integration. The North American accord idea did not discover the attractions of bilateral free trade until late in the last Trudeau government. At that time, however, free trade was expressed in sectoral rather than comprehensive terms, which were difficult to negotiate in Congress. Concessions were not equally shared across the entire industrial base, and Canada appeared to be interested only in negotiating in those areas like steel where it held a competitive advantage; thus the sectoral approach had no appeal in Washington. Brian Mulroney himself had campaigned against free trade negotiations. Once elected he changed his mind. The reasons for this about-face on the part of many Canadians is worth examination.

About 70 percent of Canada's export trade is with the

¹J. L. Granatstein, *Canada's War: The Politics of the Mackenzie King Government, 1939-1945* (Oxford: Oxford University Press, 1975), pp. 114-158.

United States.² As a percentage of gross national product (GNP), foreign trade is disproportionately more important to Canada than to other larger industrial partners. Canada also has what is described as a "whopping" trade surplus with the United States in manufactured and industrial goods, traditionally regarded as one of the most attractive types of trade surplus. This surplus is offset by a deficit in services and in capital outflows, but the industrial goods and commodity surplus is a source both of pride and of vulnerability.

Two factors contributed to turning many Canadians around on free trade. First, the world trading situation was becoming much tougher. Canadians could see how Japanese microchips and South Korean cars were beginning to affect their own competitive situation. These new sources of competition in turn made the United States look less awesome as a competitor and more attractive as a plausible trading partner. Second, protectionism in the United States Congress threatened to exclude Canadian goods. Vulnerability was the midwife of free trade interest for Canada.

FREE TRADE NEGOTIATIONS

Given the very different motives for free trade in each country, it was not surprising that each side had a different concept of the ideal agreement. Canada wanted the FTA to "regularize and stabilize" the trade flows that already existed.³ It needed to offset United States protectionism. Canada was not particularly interested in expanding the already very large volume of trade between these two countries. On the other hand, the United States sought a "big" agreement. It planned to expand the trade rules, especially in areas like agricultural goods and services where the norms of the General Agreement on Tariffs and Trade (GATT) were inapplicable or not very robust. In particular, it hoped to make the FTA into a model for multilateral trade negotiations in Geneva. Above all, the United States required more than "access to the United States market" as a justification for the bilateral negotiations. This, then, was where the two governments stood at the outset of the negotiations.

Criticized by Canada for the way the East Coast Fish-

eries negotiations had been handled, which had yielded a signed but unratified treaty, the United States took care to secure this new negotiation process. A so-called "fast-track" arrangement used elsewhere in the bargaining over the United States-Israeli free trade agreement was put into place: a clear route for congressional committee review was established and, more important, amendments would not be permitted. Both houses of Congress (according to Canadian preference) would have to approve the agreement or reject it. Furthermore, the fast-track arrangement had a strict time limit.⁴ The approval process would have to be completed 90 congressional working days after the President had submitted the agreement to Congress. The United States gave assurances to a wary Canada that it would not face another East Coast Fisheries debacle. At the same time, the executive branch continued to respect the separation of powers even to the point of a conceivable rejection of the agreement during congressional consideration. But such rejection was made less likely through close coordination between the United States Trade Representatives' Office and the Congress and through implementation of the fast-track procedure.

In the end, the FTA negotiations almost broke down on several occasions. It took a carefully staged walkout by Canadian negotiator Simon Reisman to call the attention of the White House to the desperateness of the bargaining situation. From then on, the bargaining was conducted at several levels, including bargaining between Canadian Finance Minister Michael Wilson and United States Secretary of the Treasury James Baker.⁵ At the last minute, Baker warned the lawyers attempting to design an acceptable trade dispute resolution mechanism to "be creative." This final flexibility enabled Canada and the United States to carve out their historic agreement.

What are the contents of the FTA and why is it pathbreaking? Its size and scope are impressive. So is the innovative procedure for settling bilateral trade disputes. In brief, the principal contents fall into the following categories: tariff reduction; new services arrangements; investment provisions; revisions to the Autopact; energy provisions; and subsidies and dumping under local law and the bilateral dispute resolution mechanism.

• Tariff Reduction

The essence of a free trade area is the elimination of all tariffs. Canada and the United States will accomplish this feat by the end of the century. Some duties will be eliminated as of January 1, 1989. Others will be phased out proportionately over a five-year or a ten-year period.⁶ Should industries on each side of the border request faster tariff reduction, a special provision provides for such acceleration.

• Services

One reason this agreement is pathbreaking is that it is the first comprehensive international agreement on ser-

²Department of Finance, *The Economy in Brief*, Summary of *The Quarterly Economic Review* (Ottawa: Department of Finance, September, 1986).

³Pierre Lortie, "The Economic Imperative Underlying the Trade Negotiations," *Trade Trends*, vol. 2, no. 3 (Fall, 1987).

⁴The President signed the Free Trade Agreement on January 2, 1988. Congress has 45 working days to review the agreement and 15 working days thereafter for floor action.

⁵"Drafting Paper for Secretary Baker and Ambassador Yeuter: U.S.-Canada Free Trade Agreement—Government Procurement," Office of the United States Trade Representative, Washington, D.C., October 3, 1987.

⁶"Background on the U.S.-Canada Economic Relationship," Office of the United States Trade Representative, Washington, D.C., October 4, 1987; Richard G. Lipsey and Murray G. Smith, *Taking the Initiative: Canada's Trade Options in a Turbulent World* (Toronto: C. D. Howe Institute, 1985).

vices. Each government agrees to treat imported services from the other country across some 150 industries in the same fashion that it treats its own service industries (national treatment).⁷ The right of establishment and the right to cross-border sales are guaranteed. Canada receives an exemption from any future extension of the Jones Act (1928) controlling United States coastal shipping and an assurance that basic telecommunications services like long distance telephone services will not be covered by the agreement. The implications are that the United States will not be required to disband the Jones Act, which would be politically troublesome, and Canada will not be obliged to deregulate its telephone industry as the United States has done. But the inclusion of openness for videotext services, electronic mail and data processing and storage, for example, indicates how far-reaching this agreement actually is.

• Investment

The United States wanted to obtain national treatment for investment just as Canada sought national treatment for trade. These objectives reflect the comparative vulnerabilities of the two countries. By 1993, Canada will forgo screening for direct acquisitions above C\$150 million. Standards have been established for expropriation and compensation and for capital and profit transfers. Canada has committed itself to cease forced divestitures, imposition of minimum Canadian equity requirements and the screening of indirect acquisitions.⁸ Screening of indirect acquisitions became a problem when Canada sought on occasion to force an American firm with a Canadian holding to sell that holding to a Canadian buyer when the American firm itself was sold. Thus, both Canada and the United States now enjoy substantially enhanced investment rights in each other's country.

• Autopact Revisions

In terms of jobs created and revenue earned, the auto-

⁷"Summary of the Agreement," Office of the United States Trade Representative, Washington, D.C., October 8, 1987; Paul Wonnacott, *The United States and Canada: The Quest for Free Trade* (Washington, D.C.: Institute for International Economics, 1987).

⁸"Elements of Canada-U.S. Free Trade Agreement," Canadian Embassy, Washington, D.C., October 4, 1987; Edward R. Fried, Frank Stone and Philip H. Trezise, eds., *Building a Canadian-American Free Trade Area* (Washington, D.C.: Brookings Institution, 1987); David F. Burgess, "A Perspective on Foreign Direct Investment," in Robert M. Stern, Philip H. Trezise and John Whalley, eds., *Perspectives on a U.S.-Canadian Free Trade Agreement* (Ottawa: Institute for Research on Public Policy, 1987); Peter Morici, "U.S.-Canadian Trade Relations in the 1980's," *The American Review of Canadian Studies*, vol. 17, no. 2 (Summer, 1987).

⁹For further information, see Paul Wonnacott, *U.S. and Canadian Auto Policies in a Changing World Environment* (Toronto: C.D. Howe Institute, 1987).

¹⁰National Energy Board, *National Energy Board Reasons for Decision in the Matter of Review of Natural Gas Surplus Determination Procedures* (Ottawa: Department of Supply and Services, July, 1987).

mobile industry is one of the most important in North America. Creation of an automobile agreement enabled Canada and the United States to rationalize the marketplace and to provide whatever efficiency the industry enjoyed relative to foreign competitors.⁹ The United States increasingly found, however, that Canada was using the Autopact in ways that provided a disproportionate advantage. Revisions to the Autopact enabled the two countries to retain the agreement while removing some of the contentious issues.

Canada has suspended the practice of remitting export-based duties to foreign companies willing to invest in Canada. While the benefits of the Autopact will be essentially retained for Chrysler, Ford and General Motors, a 50 percent rule of origin will serve to increase the use of auto parts manufactured in either Canada or the United States. In many respects, North America is restricting access to its automobile and auto parts markets in a way that is now similar to the restrictions of West Europe. Further global rationalization will have to await the Geneva multilateral round of trade talks.

• Energy Provisions

A surprising inclusion in the trade agreement was expansive energy provisions that go a considerable way toward creating a single North American energy market.¹⁰ In boom periods, Canada has sought to intervene in the marketplace to constrain the energy flow to the United States, while the United States has attempted to increase that flow. In periods of relative energy glut, government tactics have been just the opposite. The United States has attempted to keep "cheap foreign energy" out of the American market in favor of indigenous suppliers, while Canada has tried to penetrate that market. The free trade accord will eliminate much of this bias.

Energy trade is to be described by the phrase "free and open." Market forces, not government policies, are to be the determinants of trade in crude oil, natural gas, coal, uranium and hydropower (electricity). The governments have agreed to prohibit quantitative restrictions on imports or exports, discriminatory taxes, and minimum import or export price requirements and the like, all of which have been used in the past by each side. Some restrictions like the regulation of natural gas will still prevail, but foreign producers will be treated like domestic producers. Canada will have access to 50,000 barrels a day of North Slope (Alaskan) crude oil, provided that it is transported on American ships. Canada will not abandon its foreign investment restrictions on new investment in the oil industry. For the most part, however, very large flows and exchanges of energy have been permitted on each side of the border. Such an increase holds the promise of far greater efficiency and productivity in North American energy, regardless of world price.

• Bilateral Dispute Resolution

Each government will continue to apply its own trade

laws to deal with subsidies, dumping or other trade infractions. The United States will follow the route of the International Trade Commission, the International Trade Administration and the court system, while Canada will continue to employ the Import Tribunals. But beyond these unilateral procedures, there is another route to dispute resolution, a bilateral route.¹¹

A panel composed of five members drawn from the respective countries will hear cases brought to it after unilateral dispute procedures have been exhausted. The bilateral panel is a kind of North American trade court of last resort. Two conditions determine whether the bilateral dispute route can be employed. If insufficient evidence has been presented, or if the domestic trade law has been erroneously or improperly applied, then the bilateral dispute mechanism can be invoked.¹²

This approach to trade law interpretation is new in North America but has parallels in the way the European Commission handles cases in West Europe. Parallel also is the mandatory arbitration provision in the International Joint Commission, founded as a bilateral institution in 1909, which deals with Canadian-United States boundary-water and other environmental questions. Yet the bilateral dispute resolution mechanism in trade is a novelty for Canada and the United States. It promises faster, fairer and more efficient resolution of disputes for the two business communities. Success will, however, be determined by how the bilateral dispute resolution panel manages its affairs initially and what kind of dispute agenda it faces. Ultimately, the two governments will have to implement its definitive conclusions.¹³

In sum, the bilateral trade agreement between Canada and the United States has been hard fought as much within each polity as between opposing negotiators. But

¹¹Charles F. Doran, comments regarding "Security of Market Access and Dispute Resolution," Congressional Symposium on the Canadian-American Free Trade Agreement, Washington, D.C., December 14, 1987.

¹²Shelly P. Battram and Peter L. Glossop, of Osler, Hoskin & Harcourt, Toronto, "Dispute Resolution Under a Canada-United States Free Trade Agreement," presented at the American Bar Association National Institute on Resolution of International Commercial Disputes, Miami, Florida, November 5-November 6, 1987; Fasken and Calvin, Barristers and Solicitors, Toronto, "Review and Analysis of Dispute Settlement Provisions of the Canada-U.S. Free Trade Agreement," prepared for the Business Council on National Issues, November 19, 1987; Fraser and Beatty, Barristers and Solicitors, Ottawa, "Analysis of the Dispute Settlement Provisions of the Canada-U.S. Free Trade Agreement," prepared for the Business Council on National Issues, November 18, 1987.

¹³Roger Gibbins, "Free Trade in Political Ideologies: The Impact of Reduced Trade Barriers on Canadian Political Life," *The American Review of Canadian Studies*, vol. 16, no. 3 (Autumn, 1986).

¹⁴Consider the implications in "Top Gun Goes into the Gulf," *The Economist* (London), July 25-July 31, 1987, p. 48.

¹⁵Department of National Defence, *Challenge and Commitment: A Defence Policy for Canada* (Ottawa: Department of National Defence, 1987).

it is a far-sighted agreement that is good for both countries. It is a base from which to chart world trade relations into the twenty-first century. At this writing, the best political judgment is that this historic agreement will be approved by both governments and that it will be in operation by January 1, 1989.

SOVEREIGNTY AND SECURITY

Jurisdictional disputes are inevitable between countries that share a common border. This is so even when formal territorial boundaries are not in dispute. Offshore areas and mutually defended air and undersea space can become issues. Because of the huge size of their contiguous territories, Canada and the United States have had to grapple with these questions in rather politicized sessions since the Washington Treaty of 1871 and the Alaskan Boundary Dispute of 1903.

As far as Canada is concerned, the current set of irritations began with the two voyages across the Northwest Passage by the United States oil tanker *Manhattan* and by the United States icebreaker *Polar Sea*. After each transit, there was an outcry of criticism in Canada that Canadian sovereignty over these ice-clogged waters had been infringed. Both times, Ottawa expanded its legal claims to additional areas in response. Each claim brought further problems for the United States.

The United States has no difficulty with the claims of Canadian ownership and control per se in the Arctic. What is problematic for the United States is that increasing claims to larger and larger slices of the oceans have the effect of turning international straits into territorial waters and therefore into areas over which the adjacent countries can in various legal ways limit the transit of submarine and surface naval fleets. The United States is not worried that Canada would foreclose access. But the United States is concerned that the declaration of the Northwest Passage as territorial waters would create a precedent for closure elsewhere in the world.¹⁴

Publication of the Canadian defense white paper added further uncertainty to aspects of this debate.¹⁵ While retaining a reconstituted military presence on the European Central Front in West Germany, Canada plans to purchase between 8 and 10 nuclear-powered submarines to operate under the ice pack. Despite doubts about the Canadian financial capacity not only to purchase but to maintain and support such a submarine fleet without condemning the rest of the Canadian forces to bankruptcy, the American response normally would have been

(Continued on page 131)

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"As the government of Prime Minister Brian Mulroney began its fourth year in office, its initial hope to develop closer relations with the United States had been replaced by a firm focus on a larger challenge—shaping international order in the wider world."

Canada's New Internationalism

By JOHN KIRTON

Associate Professor of Political Science, University of Toronto

SINCE its decisive election victory on September 4, 1984, the Progressive Conservative government of Canadian Prime Minister Brian Mulroney has moved swiftly and steadily toward a distinctive and far-reaching new direction in Canadian foreign policy. The foundation of this new foreign policy has been an altered approach to Canada's relations with the United States, where the Conservative government has instituted a policy of giving its largest and most proximate international partner "the benefit of the doubt." But this bold doctrine has proved to be only the beginning of an equally open and ambitious thrust into the global system as a whole.

During its first three and one-half years in office, the Conservative government has undertaken a major review of Canada's foreign policy, and the defense policy and international development policy that lend substance to any foreign policy's aims. Moreover, the government has backed its declarations with several bold decisions—to refuse participation in the United States Strategic Defense Initiative (SDI), to extend Canadian sovereignty in the Arctic, to reinforce Canada's role in the central European theater of the North Atlantic Treaty Organization (NATO) and to move aggressively against the racist constitutional system in South Africa. Finally, Canada has sought with some success to render permanent and reinforce the power of these priorities by playing a more active role in the old international institutions of the United Nations (UN), NATO and the Commonwealth, and by energetically building newer ties with the international francophone community and with of the seven leading powers of the industrialized democratic world.

These initiatives have been in part a response to a complex and rapidly changing international environment by a new Prime Minister who has had little experience or expertise in foreign affairs and in government itself. But this process of adjustment and learning has revealed an underlying consistency. As the government's initial label of "renewed internationalism" suggests, the policy has reflected Canada's traditional desire

to work through multilateral organizations that unite Canada with countries beyond North America, thereby diminishing Canada's exposure to a potentially overpowering United States. As the government's subsequent slogan of "constructive internationalism" hints, it has revealed Canada's readiness to use its very real power in the world to strengthen old multilateral institutions and build new ones at a time when the inherited international order has been under severe stress. And as Canadians themselves recognize through the support they have given their government in its foreign policy endeavors, Canada has achieved some modest but discernable successes in shaping the international order in accordance with the particular values that Canadians cherish at home.

The task of defining the Mulroney government's foreign policy began immediately after the 1984 election, when Secretary of State for External Affairs Joe Clark received a mandate from Prime Minister Mulroney to conduct a public, parliamentary-based, comprehensive review of Canada's foreign relations. To guide the review process, in May, 1985, the Department of External Affairs produced a discussion paper, entitled "Competitiveness and Security," which reviewed the challenges Canada faced in the world and the options it had.¹ The paper met with overwhelming criticism from commentators who disagreed with the pessimistic tone of the document and the barely disguised implication that Canada's only real choice lay in a closer relationship with the United States.²

For once, critics were able to exercise real influence on the direction in which the government was headed. Prime Minister Mulroney had few fixed views on foreign policy. The more experienced and multilaterally inclined Joe Clark started to gain influence in the Cabinet. And the parliamentary committee that was to review the government's discussion paper was suddenly asked for an interim report on two burning issues on the public policy agenda—whether the government should accept an American invitation to participate in research for the United States Strategic Defense Initiative (SDI) program and whether Canada should initiate negotiations aimed at securing a bilateral free trade agreement with the United States. Led by Tom Hockin, a talented young parliamentarian, the committee conducted the

¹Canada, Department of External Affairs, *Competitiveness and Security: Directions for Canada's International Relations* (Ottawa: Supply and Services, 1985).

²"Canadian Foreign Policy: Comments on the Green Paper," *Behind the Headlines*, vol. 42, no. 3 (August, 1985).

most extensive public review in the history of Canadian foreign policy and generated an interim report that resonated well with the public mood. It recommended against SDI participation and for free trade negotiations, with a set of arguments that indicated that the government was willing to respond to the very clear and ambitious views its citizens held about their relationship with the outside world.

The cautious, pessimistic tone of the government's original discussion paper was thus replaced with an expansive, optimistic vision when Tom Hockin's committee tabled its final report in June, 1986. The report's title, "Independence and Internationalism," reflected the new focus.³ Gone was the traditional conception of Canada as a fragile middle power with modest aspirations and continental confines. In its place was a new conviction. The report noted,

Canada . . . is a strong candidate for inclusion among the leading countries standing just below the level of super-power. . . . Canada can make a difference on many international issues.⁴

Once again, a report from the Hockin committee went to a government prepared to listen. And once again the committee's recommendations were rewarded with concrete results. Thanks to the constant urging of Joe Clark, most of the committee's recommendations were accepted and translated into action, largely with the help of funds from the large and growing budget of the Canadian International Development Agency (CIDA). In December, 1986, the government released a final, full-scale response to the committee's work in a paper entitled "Canada's International Relations." The document began with a bland title but ended with a bold promise:

Continuing efforts will be made to support and, where appropriate, to refurbish international organizations. Bringing about needed reforms within the United Nations system will remain a priority, but a corresponding effort will be made in more restricted groups such as the Economic Summit, the Commonwealth, and la Francophonie.⁵

The second policy review for which Joe Clark was responsible focused on Canada's development assistance. It began with a parliamentary discussion paper issued in July, 1986, proceeded through a report issued by the

³Canada, Special Joint Committee of the Senate and House of Commons on Canada's International Relations, *Independence and Internationalism* (Ottawa: Supply and Services, June, 1986).

⁴*Ibid.*, p. 26.

⁵Canada, Department of External Affairs, *Canada's International Relations* (Ottawa: Supply and Services, December, 1986), p. 89.

⁶The result of the review was Canada, Canadian International Development Agency, *Canadian International Development Assistance: To Benefit a Better World* (Ottawa: Supply and Services, 1987).

⁷*Ibid.*, p. 41.

⁸*Ibid.*

⁹Canada, Department of National Defence, *Challenge and Commitment: A Defence Policy for Canada* (Ottawa: Supply and Services, June, 1987).

House of Commons Standing Committee on External Affairs and International Trade in May, 1987, and ended with a formal government response in September, 1987.⁶ At all stages there was a fundamental consensus, well articulated in the first basic principle of the government's final response: "The primary purpose of Canadian official development assistance is to help the poorest countries and people of the world."⁷ Backing this firm focus was a CIDA official development assistance (ODA) budget that represented one of the fastest growing areas of expenditure in a government that was pledged to deficit reduction and that was running major continuing deficits year after year. But lest any other departments develop ambitions to mobilize ample CIDA funds for their own purposes, the government's paper provided a clear guarantee: "Development priorities should always prevail in setting objectives for the ODA program."⁸

The final major review of the Conservative government was that conducted by the Department of National Defence. It got off to a slow start, as a succession of ministers entered and left the defense portfolio and as policymakers disagreed about how best to conduct the review. But in June, 1987, a new and rising minister, Perrin Beatty, succeeded in getting the job done. His report, "Challenge and Commitment," avoided the time-consuming and noisy route of a public and parliamentary review process.⁹ But through private consultations with select groups and individuals, Beatty succeeded in defining a vision that met with considerable acclaim.

The defense white paper reaffirmed Canada's existing focus on the defense of the Atlantic community, both at home in Canada and North America and in Europe on the critical central front. But it recognized that brave words would have to be backed by material investments, if Canada were to reduce its awesome commitments-capabilities gap. While the paper reduced a few commitments, notably its pledge to defend NATO's northern flank in Norway, it relied on a major increase in manpower and on new equipment to overcome the gap. It promised to complete Canada's existing program to upgrade its Arctic radars and air interception capability, to purchase an additional six frigates with helicopters and patrol aircraft, and to increase the size, skill and status of the reserves. And in an unprecedented move, it promised to acquire a fleet of 10 to 12 nuclear-powered attack submarines, and thus enter Canada in an exclusive club of only six countries in the world. While this move was controversial, it reflected a new determination to defend Canada's sovereignty in its own Arctic waters and to play a greater role in protecting Western security in the Atlantic Ocean.

THE MAJOR DECISIONS

While the government took some time to set its foreign policy perspectives and priorities, it moved more rapidly to make the tough decisions that gave the emerging vi-

sion its force. And in this realm, the government demonstrated its desire to move beyond a continental focus with even greater clarity and speed.

The first series of major decisions confronting the government arose in the relationship between Prime Minister Mulroney and President of the United States Ronald Reagan. The centerpiece of Brian Mulroney's strategy for managing Canada's relationship with the United States was to develop a close personal and publicly visible relationship with President Reagan, primarily by setting up an annual summit meeting in which Canadians could be confident their concerns would be heard and met. The first of these so-called "Shamrock Summits," held in March, 1985, in Quebec City, largely set the agenda for the subsequent events by identifying American defense, space cooperation, trade, acid rain and regional security issues as the items of central concern.

The first summit proved to be a public relations masterpiece. But it set expectations in Canada that were difficult to meet. Early achievements in extending the Northern Warning System (NWS) and civilian space cooperation soon bogged down in controversial commitments to test air-launched cruise missiles in the Canadian north and in difficult discussions about how to keep the United States civilian space station project, in which Canada was investing heavily, free from United States Defense Department claims. The springtime summits provided a convenient occasion for critics of Brian Mulroney to assail American policy toward Libya and Central America. But the biggest disappointment of the shamrock summitry investment came over the issue of acid rain, where three and one-half years of continuous and energetic Canadian pushing produced only a small change in the American position and almost no change in action at all.

It was thus hardly surprising that on the first anniversary of its entry into office, the Mulroney government began to put a broader approach into place. To be sure, in September, 1985, it announced its intention to try to negotiate a comprehensive bilateral trade liberalization agreement with the United States. But during that month the Canadians took three equally far-reaching steps that pointed in a very different direction. Canada rejected the United States request for Canadian participation in the research program for SDI at the government-to-government level, leaving Canadian firms that desired involvement the unpromising option of seeking contracts on their own. It declared full sovereignty over the vast waters of Canada's Arctic archipelago, quietly dared the United States and others who disputed Canadian claims to challenge them in the International Court of Justice and announced its intention to acquire a heavy

icebreaker to enforce its claim physically. And, in a further departure from the United States conception of a proper international order, Canada announced a new, tough set of sanctions against South Africa that placed Canada in the lead among the major countries of the industrialized democratic world.

THE SUMMIT EXPERIENCES

As the government of Prime Minister Brian Mulroney began its fourth year in office, its initial hope to develop closer relations with the United States had been replaced by a firm focus on a larger challenge—shaping international order in the wider world. The dilemmas of dealing with the United States in North America had by no means been forgotten, as Canada's conclusion of the final text of the bilateral trade agreement with the United States proved. But the trade deal was only one of a series of significant new initiatives taken by Brian Mulroney. Rivaling the trade deal in importance were the issues Mulroney forwarded in the three major multilateral summits in which he participated—those of the francophone, the Commonwealth and the Western world.

Among modern observers of international politics, summitry has acquired an often justified reputation for being all show and no substance.¹⁰ But in the case of Brian Mulroney there were significant results. As a virtual novice in international affairs, Mulroney learned about the wider global community and defined a foreign policy to deal with it through his personal encounters with leaders from abroad. And in his summit diplomacy, it was not the United States that enjoyed pride of place. During his first two and one-half years in office Prime Minister Mulroney met on a face-to-face basis with Prime Minister Margaret Thatcher of the United Kingdom more often than with Ronald Reagan. Moreover, in terms of face-to-face meetings the President of the United States ranked barely ahead of the leaders of France, Italy and Japan. Indeed, when viewed on a regional basis, the focus of Brian Mulroney's summit diplomacy lay well beyond North America and was firmly focused on the major industrial democracies of Europe and Japan, and the Commonwealth and the francophone countries of the Caribbean and Africa.

The Canadian Prime Minister's investment in summit diplomacy was unprecedented in Canadian political history in its breadth and intensity. And the results were far more than educational. For the multilateral summit forums gave Canada an opportunity to build international institutions in which it had a major role and which it could use to secure meaningful movement on the issues it most wanted the world community to address. While the UN and NATO continued to be arenas for Canadian investment, image-building and incremental progress, the new focus and achievements came from three other institutions—the Commonwealth, the francophone and the seven-power summit.

The Commonwealth was an old institution to which

¹⁰For the contrary view, see John Kirton, "Shaping the Global Order: Canada and the Francophone and Commonwealth Summits of 1987," *Behind the Headlines*, vol. 44, no. 6 (June, 1987).

the Mulroney government gave new life. Prime Minister Mulroney's visit to the Commonwealth Caribbean summit in Jamaica in February, 1985, was the second he had made abroad while in office, and the first since his September, 1984, flight to Washington to meet with President Reagan. Brian Mulroney's first full-scale Commonwealth heads-of-government meeting, in the Bahamas in October, 1985, was his first experience in a large North-South forum in which Canada was a principal power. He emerged from this meeting with the heads of 49 countries as the real leader of the organization, because of his strong denunciation of apartheid in South Africa and his firm declaration of support for active measures against the South African government. At a special Commonwealth summit in the United Kingdom in August, 1986, Mulroney continued his crusade. And in Vancouver in October, 1987, at the regular biennial Commonwealth heads-of-government meeting, he used his prerogatives as host to highlight the issues of South Africa, third world debt and the need for liberalized world trade.

These issues also enjoyed prominence in a second multilateral institution in which Canada occupied a position of leadership—the summit of the leaders of the francophone world. This institution was born in Paris in February, 1986, when representatives from 41 countries that shared French as a common language gathered for the first time. The francophone summit was a particular triumph for Canada, because its federal representatives were joined at the meeting by those from its provinces of Quebec and New Brunswick, under an imaginative but somewhat controversial formula that enhanced the role of Canada's provinces in the field of foreign affairs. But the francophone summit gave a major impetus to Canada's character as a francophone as well as an anglophone country, and to the issues of technical cooperation and economic redistribution that the world's mostly impoverished francophone countries needed to address. Canada's priorities, investments and status in the new organization were strengthened when Brian Mulroney hosted the second summit of the francophone world at Quebec City in September, 1987.

Taken together, the Commonwealth and francophone summits gave Canada privileged access and a position of leadership at the highest level in groups where the United States was not present and that included a majority of the countries and all the regions of the world. But to reap the full potential of this position of influence in the South, Canada needed a commensurately strong seat at the table in the forums that counted in the North. This position had been obtained through its membership since 1976 in the summit of the seven leading industrialized democracies, which had been meeting annually in late spring since 1975. The summit convened the leaders with the ultimate responsibility for action in the United States, France, Britain, Germany, Japan, Italy and Canada, as well as a representative of the European

Community. As a new and inexperienced Prime Minister, Mulroney faced the challenge of converting this physical position into foreign policy positions that Canada supported and that all the summit leaders would follow after they signed the final communiqué.

Brian Mulroney began hesitantly at his first summit meeting in Bonn in 1985. His potential mediatory role as the only leader who could speak—both linguistically and ideologically—the languages spoken by President Reagan and President François Mitterrand of France yielded no visible results. But this barren beginning was quickly replaced by a more impressive record. In Tokyo the following year, Brian Mulroney succeeded in getting Canada admitted, along with Italy, to the select group of seven finance ministers (formerly five) who played a critical role in coordinating and stabilizing exchange rates in the Western world. He also introduced for the first time an issue as vital to the Canadian economy as it was difficult for foreign leaders to address on their own—the need to discipline the massive national subsidies through which Western governments distorted the world's agricultural trade.

At the Venice summit in 1987, Canada promoted the issues of international finance and agricultural subsidies, along with the critical question of third world debt. But the true test of Canada's ability to shape international order in a way commensurate with Canadian values came over the question of apartheid in South Africa. None of the other leaders particularly wanted the issue handled at the summit. Some, like Prime Minister Margaret Thatcher of Great Britain and Chancellor Helmut Kohl of West Germany, were strongly opposed to raising the question at all. But Brian Mulroney succeeded in having the issue placed on the agenda, discussed by the other leaders and reported out of the meeting in language that reflected in large measure the strong principles that the Commonwealth had previously defined. To Western publics weary of struggling with the nuances of summit summaries, this seemed like a small achievement. But to a South African regime banking on the major Western powers to grow tired once again of the apartheid issue, the message was loud and powerful.

SHAPING INTERNATIONAL ORDER

As 1988 opened and the Mulroney government faced what would probably be the last year in office of its first and possibly only mandate, its foreign policy legacy re-

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"Ties with the United States restrain and complicate the making of Canadian defense policy. Canadians must always ask themselves what their partners want them to do and whether cooperation strengthens or undermines Canadian sovereignty."

Canadian Defense Policy

BY WAYNE C. THOMPSON

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DEFEENSE policy has traditionally awakened little public debate in Canada, and security issues have seldom influenced elections. The 1980's have seen a dramatic change. The increased military activity in the Arctic, the testing of cruise missiles over Canadian territory, and the press reports of alleged American contingency plans to deploy nuclear warheads on Canadian soil in times of crisis have attracted Canadian attention. And the lively discussions over renewing the North American Aerospace Defense (NORAD) command, the Canadian-American plans to upgrade the Distant Early Warning (DEW) system to a more effective North Warning System (NWS), and the controversial voyage of the United States Coast Guard ice-breaker *Polar Sea* through the Northwest Passage in August, 1985, have sharpened Canadians' focus on their security and their sovereignty.

At the same time, there is concern in Canada about the East-West military balance and the state of Canadian defense capabilities. Despite slight increases in defense spending since the mid-1970's and campaign pledges by the government of Prime Minister Brian Mulroney to strengthen Canada's armed forces, Canada's defense spending in 1987 amounted to less than 10 percent of the federal government's budget, while one-third of the United States budget is allocated to defense. In addition, and to 2.1 percent of Canada's gross national product (GNP) went to defense, compared to about 6.5 percent of the United States GNP and the North Atlantic Treaty Organization (NATO) average of 3.8 percent of NATO members' GNP. Within NATO, only tiny Luxembourg and unarmed Iceland spend less on defense.

Canadians could hardly feel flattered (although some would quietly agree) by former United States Ambassador Paul Robinson's blunt assessment of Canadian military capabilities:

As it is, Canada is not adequately able to defend the St. Lawrence River, let alone the entire territory of the world's second largest country.¹

¹The author wishes to thank Professors Joseph J. Jockel, Martin Lubin and Joel J. Sokolsky and Colonels D.A. Fraser and Ulrich Neugebauer of the Canadian Armed Forces, who read this manuscript and offered valuable advice. Robinson is quoted in Kenneth Freed, "For Its Defense, Canada Looks to the South," *Los Angeles Times*, July 9, 1984.

Geographic proximity has made the defense of Canada and that of the United States indivisible. Each nation weighs heavily in the military planning of the other, even though the asymmetry of the relationship gives the United States a stronger voice. Yet there are disagreements on important issues. The reasons can be found largely in differences that have existed since World War II: the United States is a nuclear-armed superpower with global responsibilities and capabilities, which values the utility of military force; Canada is a medium-sized power located in a relatively protected part of the world that is not plagued by a high level of international tensions.

Historically, both the United States and Canada have been blessed with oceans that have insulated them from outside conflicts and with a border between them that has not needed defense for more than a century. Unlike most countries in the world, neither has had to worry about the security of its frontiers for the last 170 years. Formerly protected by the British navy, Canada has not experienced foreign occupation and war on its soil since the War of 1812. Until the twentieth century, military concerns were not paramount in either country.

Two world wars brought the United States and Canada very different roles. With Europe in shambles and near poverty, and with the Soviet Union emerging as a dominant force in Europe and Asia, the United States was compelled to become the military, political and financial leader of the free world. By contrast, Canada's military role went from moderate to minor. During the protracted world wars, Canada contributed very little but was able to exert itself mightily to influence the outcomes of the conflicts. At the end of World War II, Canada had almost one million men under arms and possessed the world's third largest navy. After each war, however, Canada demobilized its forces even more than the United States did.

The buildup/cutback cycle was repeated during the Korean War, when the Canadian defense budget leaped to 7.8 percent of its GNP and the country sent 154 naval vessels to sea. Defense budgets began to decline under Prime Minister John Diefenbaker (1957-1963), declined further under Lester Pearson (1963-1968) and were cut and frozen under Prime Minister Pierre Elliott Trudeau's first administration (1968-1972). In 1969, at a time when many Canadians believed that the cold war had come to an end and that military power was becoming

ing less and less relevant, Prime Minister Trudeau cut Canada's forces in Europe by 50 percent, stating that "Canada . . . has fallen onto a more modest role. . . ."

The 1971 defense white paper reflected this optimistic outlook. Canada sold its only aircraft carrier, reduced the strength of its forces by about 17,000 and cut its military spending. These measures met with no popular protest among Canadians, who are inclined to regard themselves as a nonmilitary people whose greatest contribution to peace is through peacekeeping forces and disarmament efforts, rather than through preparations for war.

Since deterrence is ultimately nuclear, Canadian governments and publics have difficulty defining objectively the resources needed for Canada's defense. Therefore, decisions have been made for political and diplomatic rather than military reasons. For instance, Trudeau commented in 1968 that "our defense policy now is more to impress our friends than frighten our enemies." This philosophy has prevented the formation of a powerful domestic constituency in Canada that favors the establishment and maintenance of credible and effective military capabilities in peacetime.²

Canada is a country one-tenth larger than the United States, with a population only one-tenth its size, and has the world's longest coastline, which faces three oceans. It is utterly indefensible by unilateral means and has never had to provide exclusively for its own defense. Bilateral and multilateral arrangements have secured its defense. There is strong popular support in Canada for these commitments, which make the defense of Canada more credible and enhance its diplomatic influence. These commitments also enable Canada to spend far less on its armed forces.

A further advantage of bilateral and multilateral ties is that Canada can influence from within the planning that the United States would undertake to prevent any hostile acts against Canada. It is doubtful that the Soviet Union would ever consider the United States and Canada as totally separate entities, one neutral and one belligerent, in time of war. Canada and the United States are linked so closely economically that the Soviet Union could not attack the United States without affecting Canada's vital interests. In addition, Canada's location is so strategical-

²Joseph J. Jockel and Joel J. Sokolsky, "Defence for the Sake of Defence," *Policy Options*, vol. 4, no. 4 (July, 1983), pp. 33-35; Annette Baker Fox and William T.R. Fox, "Domestic Capabilities and Canadian Foreign Policy," *International Journal*, vol. 34, no. 1 (Winter, 1983), p. 25. Final Trudeau quote in John Honderich, "The Arctic Option: NATO and the Canadian North," *The Canadian Forum*, vol. 67, no. 772 (October, 1987), p. 16.

³Albert Legault, "Canada and the United States: The Defense Dimension," in Charles F. Doran and John H. Sigler, eds., *Canada and the United States. Enduring Friendship, Persistent Stress* (Englewood Cliffs, N.J.: Prentice-Hall, 1985), pp. 163-165. "In Defence of Canada," *Montreal Gazette*, March 15, 1985; Halstead is quoted in Honderich, "Arctic Option," p. 18.

⁴Stephen Clarkson, *Canada and the Reagan Challenge* (Toronto: James Lorimer, 1982), p. 251.

ly important to the United States that the Soviet Union could not attack Canada without the United States responding.

Unlike the European members of NATO, Canada has never had to worry about being deserted or "decoupled" by the United States. Therefore, Canada participates in North American or NATO defense arrangements in order to influence the shaping of its own defense. As the former Canadian ambassador to NATO, John Halstead, noted: "Not to be present at those meetings, of necessity, denies you any input." Such a calculation has been called "defense against help," or, more gruesomely, "no incineration without representation."³

Ties with the United States restrain and complicate the making of Canadian defense policy. Canadians must always ask themselves what their partners want them to do and whether cooperation strengthens or undermines Canadian sovereignty. Their allies, especially the Americans, raise a whole range of security concerns to which Canadians must adjust or respond.

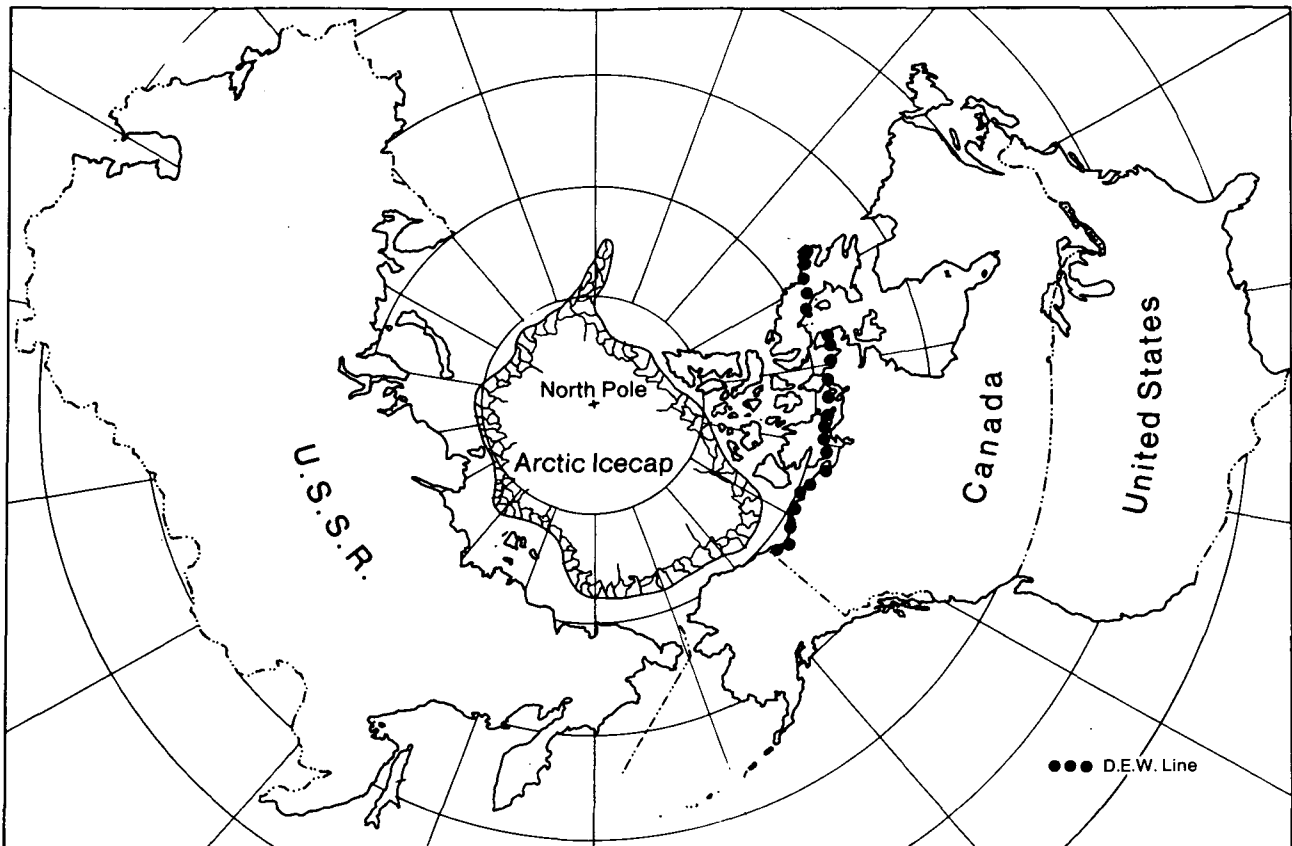
BILATERAL DEFENSE RELATIONS

In August, 1938, United States President Franklin D. Roosevelt pledged in his Kingston speech that the United States would "not stand idly by if domination of Canadian soil is threatened by any other empire." Cooperation was first established in the Ogdensburg Agreement of 1940 before the United States entered World War II. The Canadian government realized that Britain might be conquered and would therefore be unable to defend Canada. The United States government was concerned that the approaches to North America might not be secure if that happened. Therefore, Prime Minister Mackenzie King met with President Roosevelt to work out a defense agreement. In the words of the declaration, the "defense of the two countries constitutes a single problem."⁴

Like all good and lasting agreements, this one was firmly based upon mutual interest. Wartime cooperation was excellent, and since the war, Canada has engaged in many forms of military cooperation. It relies on United States intelligence-gathering and has a good record of protecting the secrets it receives. Service-to-service cooperation among professional soldiers is close. The Defense Production Sharing Agreement of 1959 exempts Canada from "Buy American" policies and from duties on military goods.

Perhaps the closest form of military collaboration is NORAD, created in 1957, with a joint staff of American and Canadian officers and headquarters in Colorado Springs, Colorado, and North Bay, Ontario. NORAD was a response to the threat posed in the 1950's and 1960's that Soviet bombers could fly across Canadian territory and into the North American heartland. When missiles became the primary threat, parts of NORAD's defense system, composed of interceptor aircraft and defensive missiles, became obsolete. In 1985, both coun-

U.S.-Canadian Defenses



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tries agreed to establish a new NWS with 52 ground radar stations stretching from northern Labrador across the Canadian Arctic to northern Alaska. Scheduled to be operational in the early 1990's, these stations are to be meshed with four over-the-horizon backscatter radars (OTH-B) on United States territory and backed by improvements to Arctic airfields to be used by Canadian and American fighter aircraft. Canada and the United States will share the costs, a welcome change for Americans, who had heretofore paid all the expenses.⁵

The problem of creating a defense against potential air strikes is linked with a ticklish issue in Canada: the use of nuclear weapons. Although many Canadians are uneasy about a Canadian role involving atomic weapons, Canada assumed a commitment (under the "two-key" system) in 1963 to arm its forces with nuclear weapons: Honest John missiles in Europe, Bomarc surface-to-air missiles (SAM's) in Canada and Genie air-to-air missiles for fighter planes earmarked for NORAD. Canada accepted this nuclear role for one reason: in terms of deterrence, nuclear weapons were less expensive than conventional arms.

Most Canadians are unaware of the depth of their country's involvement in nuclear planning. Canadian officers in NORAD headquarters join Americans in making initial attack assessments that could lead to a decision

to use nuclear weapons. Canadian governments have also agreed to permit United States aircraft, which might carry nuclear armaments, to disperse to Canadian bases in times of crisis. The public ignorance has allowed many Canadians to view their country as a "sort of righteous nuclear virgin," whose calling is to promote international disarmament.

In 1984, Canada removed the last nuclear warheads from its weapons arsenal. It is still linked with nuclear deterrence through its decision in February, 1983, to sign a five-year Canadian-United States Test and Evaluation Program. Canada has traditionally permitted allies to test nonnuclear armed weapons systems on its soil, and it has made arrangements for such testing with the United States, the United Kingdom and West Germany. In 1983, it agreed to permit experiments with a wide variety of nuclear-related weapons systems, so long as they do not actually carry nuclear warheads.

The most controversial agreement permits the United States to test the Canadian-produced guidance systems for unarmed, air-launched cruise missiles (ALCM's) over Canada. Although he had publicly committed himself to disarmament, Trudeau accepted NATO's request because, as he reminded his countrymen, Canada relied upon nuclear deterrence for its defense and therefore had to accept some obligations, unpleasant as they might be. The decision did not respond to NATO

⁵Jockel and Sokolsky, "Defence," p. 3.

obligations alone. Since the cruise missiles being tested were air-launched, not the kind of ground-launched missiles that were being deployed in West Europe, the agreement must also be seen in the bilateral context of helping the United States modernize its nuclear forces, under whose shield Canada seeks protection. No Canadian government has ever seriously challenged the basic assumptions of nuclear deterrence. In the words of the 1987 white paper, "the West has no choice but to rely for its security on the maintenance of a rough balance of forces, backed up by nuclear deterrence."⁶

Canadian sensitivity about nuclear weapons was also manifested in the fall of 1985, when the United States created a new Unified Space Command and placed the NORAD commander in charge of it. This wearing of two hats by the NORAD chief, who is always a United States Air Force general, has made some Canadians fearful that their country could be dragged via NORAD and the NWS into United States military efforts in space, including the Strategic Defense Initiative (SDI), even though the United States government denies this and the Canadian government has not endorsed SDI. The fear is fueled by the fact that a clause in the NORAD treaty explicitly ruling out NORAD's participation in active antiballistic missile (ABM) defense was quietly dropped in 1981 and was not reinserted in the 1986 treaty renewal.⁷

CANADA'S MULTILATERAL TIE: NATO

Because of its traditional ties with the United Kingdom, Canada's security and sympathy have always been linked with Europe. Canadian leaders were among the first to make public statements about the need for a post-war Atlantic Alliance, and Canada became a founding member of NATO. Both the United States and Canada share the view that the Soviet Union poses the greatest threat in Europe. As the 1987 white paper asserts,

deterrence is not divisible. If it fails in Europe, it fails everywhere. By contributing to deterrence in Europe, Canadian forces are serving Canadian interests and contributing to Canada's security.

Canada also wanted to forge military ties with West Europe to enlarge its international influence as a "middle

⁶Ibid., pp. 26-28, 35, 38, 51, 57-58; M.J. Tucker, "Canadian Security Policy," in Maureen A. Molot and Brian W. Tomlin, eds., *Canada Among Nations, 1985: The Conservative Agenda* (Toronto: James Lorimer, 1986), pp. 77-80. *Challenge and Commitment. A Defence Policy for Canada* (Ottawa: National Defence, July, 1987), p. 5.

⁷*Challenge and Commitment*, pp. 55-59; David Mueller, "Inescapable SDI," *International Perspectives* (September/October, 1986), p. 14.

⁸Quoted in Clarkson, *Reagan Challenge*, p. 251.

⁹Jockel and Sokolsky, "Defence," pp. 34-37; Simon Ollivant, *Canada: How Powerful an Ally?* (London: Institute for the Study of Conflict, 1984), p. 15; Business Council on National Issues, *National Issues, Canadian Defence Policy: Capabilities versus Commitments* (Ottawa, September 10, 1984), p. 6; J.M. Simard and Tom Hockin, *Independence and Internationalism* (Ottawa: Queen's Printer for Canada, 1986), pp. 48-50.

power" and to counterbalance its tight defense links with the United States. NATO allows Canada to deal with the United States in a multilateral, as well as a bilateral, context. As John Holmes noted, NATO becomes "of greater importance to us as the most likely means of control over United States strategic policy and of differing with them [the United States], if need be, in company."⁸

The pressure that allies exert on the Canadian government must be taken seriously. Nevertheless, Canada has often disagreed with its allies on specific issues, and it has sometimes demonstrated its willingness to say "no." In the early 1960's, Diefenbaker delayed the arming of dual-capability weapons systems with nuclear warheads (although his obstinacy was one reason why his government fell in 1963). In 1967, Canada refused to provide sites for antiballistic missiles. In 1969, it phased out its nuclear-tipped Honest John missiles in Europe and the Bomarcas on its territory. Canada also withdrew half its forces in Europe, despite the consternation of its allies, particularly West Germany. In 1987, Canada's unilateral announcement that it would no longer send reinforcements to Norway displeased that ally.

Many critics have long regarded Canada's defense commitments as far out of line with its actual capabilities. In the early 1980's, committees in the Canadian Senate concluded that Canada suffers from serious manpower deficiencies. The decision in the mid-1970's to increase defense expenditures in order to replace obsolete equipment had prevented Canada from raising its manpower level higher than the current 83,000, even though the Department of National Defense estimated that Canada's manpower requirements on the first day of a major conflict would be 108,000.

The "commitment-capability gap" demonstrated not only the relatively low priority of defense spending in Canada, but the political and symbolic character of its efforts. Some exasperated critics asked Canada to shift its focus from merely seeking influence at diplomatic council tables to "defense for the sake of defense," which would redraw Canada's commitments to conform to its capabilities.⁹ This is precisely the problem that the 1987 white paper sought to correct.

Canada still maintains a military presence in Europe. Close to 7,000 troops in the four Canadian Mechanized Brigade Groups and the one Canadian Air Group are stationed in the southwest West German cities of Lahr and Bad Soellingen. Canada also has about 400 soldiers scattered throughout other European NATO countries. Because of Norway's ban on the stationing of foreign troops on its soil, Canada had no permanent base there.

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"Even if Mulroney and the Conservative party are unceremoniously cast out at the next election, their legacy will include two dramatic and fundamental efforts to align Canada's future—free trade and constitutional change."

The Canadian Political Scene

BY HENRY S. ALBINSKI

Professor of Political Science, Pennsylvania State University

THE lengthy era of Prime Minister Pierre Elliott Trudeau and his Liberal party produced a more humane and more nationally spirited Canadian community; but it was a worn Trudeau who stepped down in 1984.¹ He had undergone failures and frustrations as well as successes, and he left with his earlier charisma dimmed and his popularity diminished. Trudeau's Liberal replacement, John Turner, served for only a few months. In September, 1984, Turner and the Liberals were swept out of office. Under the young, energetic Brian Mulroney, a fully bilingual Anglo-Canadian from Quebec, the Progressive-Conservative (PC) party won resoundingly in parliamentary elections, capturing three-fourths of the seats in the House of Commons and carrying every Canadian region. While Trudeau had generally been perceived as a philosopher-politician, Mulroney was regarded as a practical, problem-solving man, who was prepared to shake and to update.

At the close of 1987, the Mulroney record indeed reveals a number of highly visible commitments and initiatives. Yet while his massive parliamentary majority remains intact, his personal and his party's public support has fallen precipitously. Turner's Liberals have revived somewhat, but the popularity of Canada's version of social democracy, the New Democratic party (NDP) (a party that has never before seriously challenged for national power) has been conspicuous.

After Mulroney's first three years in office, most of Canada's major economic indexes registered positive: one of the best economic growth rates among industrialized countries; falling inflation; decreased unemployment; a decline in time lost due to industrial disputes despite some acrimonious episodes; general business and consumer confidence. The government claims its share of credit for Canada's economic success, which Mulroney ascribes to his version of the proper direction for Canada. This direction is an economy predicated on market-driven economic forces, stimulated by public austerity, privatization, deregulation and the devolution of government decision-making. Judging by the government's dismal electoral standing, however, much of the public has not been impressed or convinced.

However, Canada continues to groan under a sub-

¹Henry S. Albinski, "Contemporary Canadian Politics," *Current History*, May, 1984, pp. 206-210, 231-233.

stantial domestic deficit, accumulated during years of heavy social spending (at a rate that exceeds that of the United States). Many if not most socioeconomic support programs are hotly defended by interested stakeholders, imposing constraints on any government. Canada is less devoted to individualistic norms and is less guarded about the role of government than is the United States. Early in its tenure, the PC government beat a retreat over plans to economize by scaling down the nation's expensive, indexed pension program, confessing that it had misjudged applicable rules of fairness. The government nonetheless spent lavishly to bail out ailing private- and public-sector enterprises. Squeezed by depressed international prices, farmers have in turn required substantial subventions. To reduce the burden of deficits and a debt service that came to absorb nearly 40 percent of federal revenues and to redress anomalies, the government has worked to restructure the tax base.

Tax reform was long needed. Despite its assertions of favoring a fair sharing of burdens, the government earned little popular credit for successive tax increases; and, according to its critics, it was too lenient with the wealthy at the expense of ordinary, middle-class families. In the Canadian context, negative perceptions of favoritism toward the corporate sector are likely to be accentuated by association with the substantial foreign economic presence.

By the close of 1987, Turner had chosen to position himself perceptibly to Mulroney's socioeconomic left, to distance the Liberals from the PC's and to prevent the resurgent NDP from preempting the ostensibly fashionable left of center of the spectrum. While the NDP's formal platform contains contentious planks, it is the pragmatists—of whom the leader Edward Broadbent is one—who dominate. The NDP would nevertheless roll back some of the PC government's deregulatory measures and intervene further in various enterprises, and would probably undertake a measure of new public ownership.

The PC's own record on the easing of the government's hand on business is significant. It has sponsored deregulation in the sensitive fossil fuels industry, enabling producing provinces to gain revenue, but at a loss to the national treasury. Privatization, on the other hand, means (or can mean) money earned

from sell-offs. The government has privatized a number of public corporations, the largest being Teleglobes Canada (international communications). Canadians are not committed to collectivism *per se*, but are hardly averse in principle to selected public ownership, which over time has been introduced by various parties federally and provincially. Based on 1983 data, government-owned or government-controlled enterprises accounted for one-fourth of the net fixed assets of Canadian corporations. A nationalist strain also colors public sentiment on the subject. It may have been sound business sense to sell off the De Havilland Aircraft Company, but its sale to the Boeing Company, a United States firm, sat uneasily.

The government has taken aim at Petro Canada and at Air Canada, which both possess vast assets. But Petro Canada over the years was able to soften the foreign domination of the Canadian petroleum industry, and nationalist sentiment, spurred by such recent "sovereignty" controversies as prospective free trade with the United States, has made Canadians edgy about privatization, a term that some equate with sellout. Petro Canada is costly for the nation, but opinion polls uphold its popularity. Air Canada is—well—an institution, the familiar Canadian flag carrier, and hard to dismiss if only on traditional and sentimental grounds.

The October, 1987, stock market plunge has weakened the economic feasibility of selling major enterprises. The government's effort to open numerous private post office franchises was met by postal union industrial action, causing the government to forswear any substantial privatization plans. Hence, regardless of cost-effectiveness rationales, the government's much-advertised privatization ambitions have become mired in a combination of public and special group resistance or at least indifference, in the wider issue of national pride and interest, in some economic obstacles, and indeed in poor bureaucratic management. It is not the stuff from which a reputation for bold reform is forged.

The Canadian-United States free trade agreement, whose terms were accepted by the two sides in late 1987 after lengthy and difficult negotiations, has been accepted by the respective governments. But the debate in Canada, in progress for some time, has encapsulated many of the country's political themes and has exposed the slippery surface on which the jostling for political advantage is carried out. The debate has pitted the PC against the Liberals and the NDP. It has divided provincial governments, economic interests and the public.

The government argues that free trade is an economic necessity. Free trade would insulate Canada against American protectionist tendencies, offer wider access to the American market, stimulate Canada's own productivity and competitiveness, and create new jobs. Moreover, Mulroney has pitched his free trade appeal as a challenge—an exciting, even noble venture to make Canada a better and more prosperous place.

The opposition parties and assorted interests have not only denied Mulroney's economic reasoning but, often in emotionally charged terms, they have insisted that his vision of Canada is warped and very nearly subversive. Critics charge that Canada cannot compete on equal terms in an open commercial environment against the massed resources of the American economy. Jobs will be lost, not gained, and countless Canadian industries and businesses will be devastated. Canadian social programs will be bent out of shape, and trade unions will be impoverished. It is pointed out that, more than Americans, Canadians are accustomed to enjoying business, cultural and artistic subsidies that will henceforth be endangered. *Laissez-faire*, the survival of the fittest, is not the Canadian way. The bottom line, critics argue, is that Canada's economic and indeed its political sovereignty and its cultural identity are at risk. Decades of painstaking efforts to foster national feeling within a disparate and often disputatious society will be quickly snuffed out. Canada's future should be neither American nor continental, but Canadian. Slogans like this abound in the free trade debate.

The specter of an ever-spreading Americanization of Canada has been fueled from various directions. Waging the 1984 electoral campaign, Mulroney was adamantly against free trade. His subsequent conversion is depicted not as the reeducation of a pragmatist but as the turncoat behavior of the most pro-American Canadian Prime Minister in memory. There is a widespread public belief that there has been no letup in the material and symbolic injuries that the United States heaps on Canada—foot-dragging over control of acid rain, denial of Canadian sovereignty over Arctic passageways, damage to fair prices for Canada's agricultural products, retaliatory commercial measures, and so on. In this context, it is not unusual to hear that while Mulroney cannot be trusted, the administration of President Ronald Reagan is devious. Canada is said to have been hoodwinked by the Americans over free trade. Canada made humiliating negotiation concessions and faces satellite status. Survey data suggest that, by a two-to-one vote, the public believes that the Americans got the better deal, with deleterious consequences for Canada's cultural and decision-making autonomy.

As the political cannonading rises, public opinion is split as to whether or not free trade on balance deserves to be endorsed. Many Canadians are confused or undecided, while large business is generally supportive. The Canadian Labor Congress, whose feelings have been exacerbated by the government's tough handling of public sector strikes, is opposed. But popular sentiment cuts across occupational, party identification and geographic lines.

Among provincial premiers, there is no consensus over free trade. One result has been the appearance of some odd bedfellows. Among those in support are francophone Quebec and the quintessential prairie province

of Saskatchewan. Among those opposed are Ontario, the largest and most industrialized province, and Prince Edward Island, the smallest and least developed province. The PC premier of Saskatchewan has derided the Ontario premier's insinuation that what is good for Ontario is generally good for the rest of Canada. The Mulroney counter has been to reach for the political high road, maintaining that, in a nation of wide regional economic disparities, free trade will contribute to a more equitably distributed, pan-Canadian prosperity.

Speaking for the government of one Canada (as provinces or particular interests cannot), Mulroney adds that the society cannot be governed by committee; he will eventually seek Parliament's approval of the agreement. But while there may be only one government of Canada, even a huge PC House of Commons majority cannot ensure passage. The NDP in particular has vowed to employ obstructive parliamentary tactics at every turn. The Senate's formal legislative powers are impressive. Its entrenched Liberal majority has frequently been a thorn in the side of the PC government's legislative program. There is general agreement that the free trade package predominantly falls within federal jurisdiction. But some aspects of it are in jurisdictional question, and constitutional appeals to the courts could result.

The Liberals and the NDP claim they would welcome an early election fought over the issue of free trade, well before the late 1989 technical expiration of the sitting Parliament. Given the government's presently torpid electoral standing, this is not surprising. Both opposition parties threaten that, if elected, they would tear up the agreement. Mulroney is unlikely to take the bait of an early election while his party's fortunes remain depressed, and his campaign on behalf of free trade has not been fully mobilized. Paradoxically, the government's eventual chances of being returned to office in an election that highlights free trade may be enhanced, insofar as only the PC's are for it, while the opposition parties would split the anti-free trade vote.

A scenario to this effect is not implausible. However, other considerations must be factored into electoral projections. The Canadian electorate is volatile and poorly anchored in party allegiance. Issue salience tends to lag behind images of party and leadership quality. The PC government has been shaken by scandals, unpleasant patronage practices and ministerial misadventures. Its parliamentary majority is so large as to be clumsy, and many of its ministers lack previous experience. Mulroney's personal credibility and esteem are exceptionally low. Recurrent and highly publicized imputations of an obsessively partisan Mulroney style have not helped. As one observer has remarked about Broadbent, his "strengths are the converse of his opponents' weaknesses; never having held office, he appears more virtuous than

Mulroney; heir to a social democratic tradition, he appears more consistent than Turner." Indeed, "Canadians have not suddenly become socialists: they are simply disappointed with the current leadership choice. Several NDP positions are anathema to Canadians."²

Hence, while some analysts feel that free trade as an issue may dominate public choice in the next election, it could also prove to be the forensic base on which features of style and presentation come to outweigh substantive considerations. In such an event, no winning party could convincingly claim a mandate for or against free trade. Finally, the government's performance on economically related issues, free trade among them, will not stand alone as an electoral test.

REGIONS AND NATIONAL UNITY

Much of the Mulroney government's performance on questions relating to group and regional satisfaction or to national reconciliation deserves high political marks. Yet no government can please everyone all the time. Although the PC government's intentions, efforts and even results have been presentable, the political dividends have been clouded by other considerations—mistrust of Mulroney; doubts about PC party and government probity and managerial effectiveness, and the emotion surrounding the free trade controversy.

Mulroney has civil libertarian instincts and wants to help traditionally disadvantaged population groups. The Canadian public and a sizable portion of the PC party favor the restoration of capital punishment. But on a free vote with Mulroney himself emphatically on the side of the abolitionists, the House of Commons defeated a motion to revive the death penalty. The government has been generous toward refugees but was alarmed by the ease with which unauthorized South Asians bought passage, were illegally landed and were able to claim refugee status and to settle while their cases were being reviewed. The government introduced tough legislation to forestall future such episodes, but in so doing it arguably overreacted to the scope of the problem, angering civil libertarians and other constituencies, and thereby damaging its credentials.

The government was eager to publicize its Multiculturalism Act, which commits the government to promoting and facilitating a multicultural Canada. But this is not a new concept, and the legislation provides no fresh legal or financial resources for these objectives. If the act is innocuous, then why was it introduced? "The answer, born of realism rather than cynicism, lies in the poor standing of the Conservative party with certain ethnic groups." In the 1984 election, the PC did not do well among southern European migrant groups, and "We presume that the new . . . [act] will now be flogged around as a sign of Conservative interest in their aspirations."³ However, Mulroney made a determined effort to fill a lacuna in the constitutional Charter of Rights and Freedoms, adopted under Trudeau in 1982. He hoped

²Thomas S. Axworthy, "Left Turn in Canada?" *Public Opinion*, vol. 10, no. 3 (September/October, 1987), p. 54.

³Jeffrey Simpson, *Toronto Globe and Mail*, December 3, 1987.

for a clearly defined statement about the rights and privileges of indigenous Canadians. Because provincial governments were unable to agree on a formula, he failed.

The government has been sensitive on balance to the treatment of women. Its actions have included the appointment of women to responsible positions, the fostering of an expanded role for women in the armed forces and the introduction of a child-care plan in late 1987 described by the health and welfare minister as the most important social program brought forward by the government during his career. But when Mulroney and provincial premiers were able to craft an agreement on a new and ambitious constitutional plan for Canada at Meech Lake, Quebec, in the spring of 1987, the women's movement scolded him because the text omitted explicit mention of female rights and otherwise seemed weak on individual protections, despite the applicable provisions of the Charter of Rights.

The long-term implications of the Meech Lake agreement are profound. As a run-up to discussing its particulars, it is useful to be reminded of Mulroney's philosophy about Canadian government and society and about the actions that his views have helped to inspire. Mulroney believes in government decentralization and power sharing, especially in the context of a heterogeneous and provincially strong-willed Canada. Hence his government has undertaken decentralized economic development and diversification programs in the Atlantic provinces and in the west. Despite Ottawa's constitutional jurisdiction over offshore energy resources, Mulroney voluntarily struck a deal under which depressed Newfoundland can enjoy considerable autonomy of direction and can realize a substantial share of the revenues. For its part, Alberta was able to win long-sought federal deregulation on behalf of its own oil and natural gas industry.

The prairie provinces have nevertheless always expressed discontent over federal callousness. This disaffection has by no means been alleviated during Mulroney's incumbency. Complaints continue, and there is an uproar when the west is apparently sacrificed to Ottawa's exigencies when it courts the populous provinces, francophone Quebec in particular. Hence the outcries when the PC government awarded a lucrative contract for servicing FC-18 aircraft to a Montreal company rather than a Winnipeg firm, even though the latter's bid was technically superior and financially more competitive.

Politics in the narrow sense apart, Mulroney is attached to cultural and linguistic rights and to fair play, and to the cause of a more relaxed and durable Canadian unity, set in a plural environment. The nodal point is Quebec—a large province, historically special, French in character and aspiration, and very determined. But Conservative Mulroney repudiated the obstructionism of the Conservative party opposition in Manitoba and publicly endorsed the restoration of specified language

entitlements to the very small francophone community in that province. Mulroney has been uneasy about continuing controversy in Quebec over such aspects of provincial language policy as the right of merchants to post signs in English in conjunction with French. On the whole, however, he and many other Canadians have been gratified by what has happened in Quebec during the past few years. Secessionist sentiment has dwindled and in late 1985 the provincial Liberal party under Robert Bourassa swept the separatist Parti Québécois out of office.

The death in November, 1987, of one of the prime inspirations of Quebec nationalism, René Lévesque, signaled the end of an era. Well before Lévesque's death, before and after he stood down as the Parti Québécois leader and earlier when he was premier, the party had lost its sense of focused mission; now it is organizationally depleted. Quebec has recently been concentrating on building a modern, energetic and prosperous community, and for the most part it is confident of the vitality and safety of its cultural and linguistic identity.

For Mulroney, circumstances in Quebec seemed especially propitious. His objective suggested something far more fundamental than the casting of occasional favors, such as the FC-18 contract, toward Quebec, or the accommodation of Quebec's pride in such ways as its collegial incorporation into the October, 1987, international francophone summit, held in Quebec City. Something of a constitutional nature was needed. The instrument that evolved was the Meech Lake agreement. As Mulroney has construed it, the terms and spirit of Meech Lake are good not only for Quebec, they are right for other provinces and regions. And, incidentally, in self-interested political terms, Mulroney also finds Meech Lake pleasing.

Meech Lake is essentially a document that delivers more power and latitude to the provinces. It sustains Mulroney's bias for decentralization and local initiative. It provides more scope for provinces historically suspicious of Ottawa, and gives them a stronger voice in the management of the national government system itself.

Quebec's endorsement of the agreement, and its foreseeably more comfortable easing into its Canadian setting, remains Meech Lake's centerpiece. If approved within three years by Ottawa and all provinces, the agreement will become part of the Canadian constitutional framework. Decades of struggle by successive Canadian governments to extract universal provincial

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"There is . . . a real danger that Canada . . . will be trapped in ever more substantial and permanent support of the farm sector. How to help farm families in actual need and yet restructure the agricultural sector so that it will be efficient and competitive in the years ahead is the policy dilemma of our time."

Agriculture in Canada

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DURING the past five decades, despite its diversity, agriculture in Canada has adjusted to the pressures of major technological change. In the late 1980's, much of this sector faces further challenges; it must adjust to economic pressures arising from depressed international grain markets, financial stress, uncertain world and national economic conditions and increasing environmental concerns.¹

The geographic and climatic diversity exhibited on Canada's large landmass, in area second only to the Soviet Union, contributes to the considerable differences in agriculture in various regions. Only 7 percent of the land area of Canada is occupied farmland and most Canadian agriculture is found below latitude 55°. The Peace River area of northern Alberta and British Columbia, between latitudes 55° and 57°, is the most northerly crop-based farming region of Canada; little commercial agriculture is found in the more northern regions because of the rigors of the climate and the long distance from markets.

Ontario is the leading agricultural province, accounting for 27 percent of the value of Canadian agricultural output in 1986, followed by Saskatchewan (20 percent of output), Alberta (18 percent), Quebec (16 percent), Manitoba (10 percent) and British Columbia (5 percent). Although agriculture is of considerable importance to the economy of the four Atlantic provinces, these provinces produced in aggregate only 4 percent of the value of Canadian farm products in 1986. Many small farmers in this region supplement their agricultural activities by partial employment in fishing and forestry. In the Atlantic region of Canada (which includes Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland, as well as the Gaspé district

of Quebec), relatively small-scale mixed crop and livestock farms predominate. The average farm size in the Atlantic provinces was 248 acres in 1986. Some areas specialize in producing fruits like apples and blueberries, and potato production is of particular importance.

The central region of Canada, specifically the provinces of Ontario and Quebec, contained about 75 percent of the manufacturing activity and 62 percent of the population of Canada in 1986. This most densely populated region of Canada thus represents the largest domestic market for food, and this is seen in the range of agricultural products produced in this region. The average farm size in Ontario was 192 acres in 1986, somewhat smaller than in Quebec (217 acres). Ontario is the leading livestock-producing province; beef, dairy, hog, poultry and a variety of specialty crop farms tend to be concentrated in different areas here, and tobacco, corn, soybeans and vegetables are among the more important crops. In Quebec, livestock farms are common; dairy production predominates but cattle, hog, poultry and mixed farms are evident, while forage crops account for the largest area of cultivated acreage.

The prairie region (Saskatchewan, Alberta and Manitoba) of western Canada contains 80 percent of Canada's farmland, and the production of grain and oilseed crops dominates. Export markets are of particular importance. High-protein spring wheat is the dominant grain crop in the prairie region, followed by barley and canola, Canada's major oilseed crop. The average farm size in 1986 was 1,036 acres in Saskatchewan, the leading producer of wheat, 883 acres in Alberta, the leading producer of cattle and barley, and 700 acres in Manitoba, where grains, oilseeds and livestock products are important. In contrast, agriculture in the mountainous Pacific region of British Columbia involves relatively smaller farms (313 acres on average in 1986), and farming accounts for only a small proportion of the land area. Dairying, cattle, poultry, vegetables and fruits are the major farm activities.

Four decades ago, one-fourth of all working Cana-

¹Except where other sources are indicated, the statistical basis for this article is provided by Statistics Canada, *Canada Yearbook 1988* (Ottawa: Supply and Services, 1987); Statistics Canada, *Agriculture Economic Statistics*, Catalogue 21-603E (Ottawa: Supply and Services, 1987); and Statistics Canada, *1986 Census of Canada: Agriculture*, Catalogue 96-102 (Ottawa: Supply and Services, 1987).

dians were engaged in farming; now only 4 of every 100 employed Canadians work in agriculture. And yet, over this time, agricultural output more than doubled, while the number of Canadian farmers and farm workers decreased sharply, in large measure because of the revolution in farming technology that has characterized agriculture in most developed countries since the 1940's. In the 1930's, horses provided the major motive power for agriculture, but by 1960, the move to a machine-based agriculture was largely complete. Improvements in farm machinery, as well as in crop varieties, livestock breeds, fertilizers, pesticides and management, underlay this technological revolution. Major changes have occurred in the structure of Canadian agriculture, involving trends toward fewer but larger and increasingly capital-intensive farms. These trends are expected to continue into the 1990's as financial pressures, stemming from increasing costs and relatively poorer market prospects for grains and oilseeds, lead most Canadian farmers to search for productivity improvements.

The Canadian farm sector not only constitutes a declining proportion of the employed labor force in Canada but claims a decreasing share of national output. The farm sector's contribution to overall gross domestic product (GDP) in Canada has shrunk to approximately 3 percent. The declining relative role of the primary agricultural sector is both an inevitable and a desirable outcome of the process of economic growth. Such structural change or sectoral transformation is, in fact, causally related to influences on both the demand and the supply sides of the process of development. The major demand-related factor is Engels's Law—the empirical generalization that as economic growth proceeds and per capita national income rises, the proportion of income spent on food declines. Canadians, for example, now spend only 16 percent of their disposable income on food. On the supply side, the main factors underlying structural change are differential productivity growth and the relative strength of internal economies of scale and external economies in the respective agricultural, industrial and service sectors of the economy.

The 1986 Census of Agriculture revealed a total of 293,000 census farms in Canada. Since these include all landholdings from which agricultural sales of \$250 or more were made,² this total is considerably greater than the number of commercial farms; 29 percent of all census farms had sales of less than \$10,000 while 20 percent had sales of \$100,000 or more. The larger commercial farms account for the larger proportion of farm output. While the distribution of sales accounted for by farms of different sizes is not at this time available from the 1986 census, an indication is provided by a 1984 farm survey

that indicated that the largest farms, comprising one-third of all Canadian farms, accounted for some 77 percent of sales. In contrast, the one-third of smallest farms accounted for only about 5 percent of total farm sales.³ Income from off-farm sources and the amount of off-farm work are greatest for those in this group of small-scale farmers.

The ownership pattern of Canadian farms shows relatively less change over time than other structural dimensions. Most farms are operated by their owners. The majority are classified as individual or family farms (82 percent in 1986) or are operated by partners (12 percent). Only 6 percent of farms were operated by corporations and of those, nearly all (92 percent) were family-owned corporations. Agribusiness firms are rarely involved in agricultural production in Canada. There has been a tendency for farmland renting to increase. In 1986, 41 percent of farmers reported that they farmed some rented land; in total, 36 percent of farmland was rented.

In the 1980's, many Canadian farmers have had to face major challenges of adjustment to adverse economic pressures. Increasing costs, particularly interest costs, combined with low prices in world markets for grains and oilseeds, have caused financial problems for many farmers. These problems have tended to be concentrated among those who entered agriculture or expanded farm operations since the late 1970's. Such problems are not unique to Canadian agriculture; they have been experienced by farmers in other areas of the world, including the United States. The farming sector in Canada, as in many other countries, experienced unprecedented prosperity during the 1970's. World prices for many foods increased, in part because of the rapid increases in world trade for farm products. Land values increased at a more rapid rate than the general levels of prices in the economy. Capital values of farm assets increased over the 1970's (in both nominal dollar and real value terms), in part because of increasing farm size but mainly because of the increased value of farmland that characterized agriculture in that decade.

By 1981, when farmland prices peaked, the capital value of an average Canadian farm was \$409,297—an average value, in real terms, more than two and a half times the value prevailing in 1971. As capital values in agriculture increased during the 1970's, so did the level of farmers' indebtedness. New farmers and farmers expanding their operations increased their levels of borrowing. But farmland values have fallen since 1981. By 1986, the real capital values of Canadian farms were, on average, 31 percent less than in 1981. The level of debt, expressed as a ratio of the value of capital assets to debt, has risen, and many Canadian farms have been in financial difficulties. Higher debt obligations and real interest rates in the 1980's, combined with lower sales of grains and oilseeds, have contributed to the problems.

Of all the components of farm costs, interest on in-

²All cited values are in Canadian dollars. In 1986, one Canadian dollar was, on average, worth 73 U.S. cents.

³Farm Credit Corporation, *Farm Survey* (Ottawa: Farm Credit Corporation, 1984).

debtedness showed the most growth over the past decade, increasing from 11 percent of aggregate total farm operating expenses in 1976 to a peak level amounting to 19 percent of operating expenses in 1981. Interest on indebtedness subsequently fell to 14 percent of farm operating expenses in 1986, when it was the third largest source of farm expenses, behind farm machinery and feed expenses. Of course, these costs have not been spread uniformly among all producers but have been concentrated among those with the heaviest debts—typically those who expanded or entered the sector in recent years. The 1986 census indicated that one-third of all Canadian farmers were debt-free.

The rate of farm bankruptcies increased during the early 1980's (although these continued to account for a small proportion of farms), and many Canadian farmers suffered financial stress of varying severity. The financial position of livestock farms generally improved in the mid-1980's, with strong markets for livestock and lower feed costs. By 1987, Agriculture Canada considered that 12.5 percent of all farm borrowers were in severe financial difficulty, an increase from 11.5 percent in 1986. Financial stress was most concentrated among grain and oilseed producers and thus was most prevalent in the prairie provinces, particularly in Saskatchewan.⁴ The international subsidy war that drove world prices of grains and oilseeds to particularly low levels in 1986 and 1987 prompted two special grain programs, one in 1986–1987 and one proposed for 1987–1988, to provide financial assistance to producers of grains and oilseeds. Each of these programs involves direct payments to producers, based on their area of cropland, to a specified maximum level.

The major instrument of farm financial policy, the Farm Credit Corporation, has suffered substantial losses in the 1980's. Recent federal policy in this area has also encompassed a system of farm debt review boards; these are essentially review panels that attempt to negotiate settlement procedures between farm debtors and their creditors. The rural transition program provides temporary financial assistance for moving and retraining to farmers who leave the industry.

GOVERNMENT RESPONSIBILITY

The federal and provincial levels of government share jurisdictional responsibility for Canadian agriculture. With some exceptions, land use is subject to the authority of provincial governments, as are trade and commerce within provincial boundaries. The federal government tends to be more involved in agricultural research for agricultural products, while provincial departments of agriculture are more involved in agricultural extension. Both levels of government have programs related to agricultural and food policy. In some instances, as in the case of crop insurance or regional development programs, these involve specific agreements between the federal

government and the provincial governments.

Agricultural policy has developed slowly. Agricultural expansion and productivity were once the major objectives of government programs for agriculture. Depressed world markets for agriculture in the 1930's, increased government involvement in the marketing of farm food products during the wartime conditions of the early 1940's and changing social attitudes toward government intervention and income transfers during the 1960's and 1970's were associated with increasing activities of federal and provincial governments directed toward the level and stability of incomes in agriculture. Price and income support for farmers has tended to increase, but the Canadian farm sector, like the United States farm sector, is considerably less protected than farm sectors in Japan and the European Economic Community and more protected than such sectors are in Australia and New Zealand. The level of protection and support for Canadian farmers, as compared to protection for farmers in the United States, has varied over time and by commodity.

As is the case for most nations, Canada has tended to provide more protection and support for those areas of farm production in which its farmers have least competitive advantage while seeking to expand export markets for those commodities of which it is a low-cost producer. The most highly protected farm products are dairy products and poultry. Systems of supply management, backed by the limitation of imports, increase the prices paid by Canadian consumers for these products but restrain the quantities produced by farmers to market-clearing levels. The programs for these commodities are administered by national supply-management boards. Less restrictive marketing boards operate for a variety of other Canadian farm products. Market support for other major livestock commodities is far more limited and is provided mainly by stabilization programs that offer support only when market prices fall appreciably below the medium-term trend of prices for these products. Assistance to the grain sector has historically involved rail transport subsidies. A federal grain stabilization program, funded in part by producer contributions, has become more important in recent years. Other voluntary programs available to farmers include the system of shared-cost crop insurance and provision of credit on favorable terms by the Farm Credit Corporation and provincial farm credit agencies.

Like most other industrialized nations, Canada needs to reconsider the level and the nature of the protection and assistance given the farm sector. Increasing levels of protection and assistance to farmers have been justified on grounds of the importance of regional development and the desire to increase farm incomes. Further, farm organizations and farmers have lobbied governments to reduce the disruptive impact on farm families of increased protectionism and export subsidization by other nations. The systems of regulated marketing (supply management) introduced in the 1960's and 1970's for dairy

⁴Agriculture Canada, *Farm Financial Assessment Report* (Ottawa: Farm Development Policy Directorate, August, 1987).

and poultry products not only increased consumers' costs but also restrained interregional trade and reduced international trade. Increasing levels of direct government assistance have been provided for other Canadian farm products, particularly for grains and oilseeds since 1986. Typically, output and input subsidies are given on the basis of the output levels or land areas of farms, subject to specified maximum levels.

Economists have long been concerned that such subsidies are likely to distort production decisions, distort the value of farm assets and provide most benefit to larger farms without necessarily providing adequate support to those families most in need. In a nutshell, current agricultural policy in Canada, as in the United States, supports wheat or corn (and, indirectly, farmland values), not farmers. It is time for policymakers to consider alternatives like guaranteed annual incomes or negative income tax proposals for farm families.

EXPORT MARKETS AND TRADE

The importance of export markets to Canadian farmers is reflected in the fact that the value of agricultural exports, expressed as a percentage of farm cash receipts, has ranged from 45 percent to 50 percent in recent years.⁵ Export markets are particularly important for grains and some oilseeds. They are of increasing importance for pork and are appreciable for beef. In 1985-1986, for example, exports of wheat were 73 percent of wheat production while exports of barley were 30 percent of barley production. Some 42 percent of farm cash receipts for canola were derived from export sales in 1985-1986. In 1985, the value of live hog and pork exports from Canada was equivalent to 32 percent of farm receipts from the sale of hogs, while for cattle and calves, this figure was 14 percent. It is evident that the export of agricultural products is of particular importance to producers of grains, oilseeds, pork and beef.

Exports of agricultural commodities accounted for 8 percent of all Canadian exports and 6 percent of total imports in 1985. In terms of commodity composition of exports, grains have long dominated, accounting for about half of Canadian agricultural exports in most years. Canada accounts for about 20 percent of the total world exports of wheat. The Soviet Union and China provide major markets for Canadian wheat exports. However, the United States became the most important market for Canadian agricultural exports in 1985 and is by far the most important source of agricultural imports into Canada, accounting for 57 percent of Canadian agricultural imports in 1985.

⁵Trade data presented in this section are from Statistics Canada, *Grain Trade of Canada 1985/86*, Catalogue 22-201 (Ottawa: Supply and Services, 1987), and Agriculture Canada, *Canadian Trade in Agricultural Products 1983, 1984 and 1985* (Ottawa: Supply and Services, 1986).

⁶Organization for Economic Cooperation and Development, *National Policies and Agricultural Trade* (Paris: Organization for Economic Cooperation and Development, 1987).

World markets for farm products grew at a rapid rate in the 1970's but have grown much less rapidly during the 1980's, in large measure because of the slower rate of growth in the world economy since 1980. Macroeconomic events and policies in the world economy have had a great deal of impact on world markets for farm products. Many industrialized nations, including Canada, reacted to oil price surges in 1979-1980 and the subsequent resurgence of inflation by sharply increasing interest rates. Inflation was dampened, but at the expense of widespread recession in the world economy. The effects on the export-earning capabilities and debt-servicing costs of third world nations have been particularly severe, reducing their ability to import food and thus contributing to weaker world markets for agricultural products. Low worldwide prices for many farm products have also resulted from increasing levels of agricultural protectionism.

In many countries, access to domestic markets has been restricted in order to maintain domestic producers' prices at levels higher than world prices. Products in this category include cereals in the European Economic Community (EEC), sugar in the United States, and poultry in Canada.⁶ The agricultural policy of the EEC and the process of technical change in West European agriculture have contributed to the major structural changes that have occurred in world grain markets. In the early 1970's, the EEC was still a net importer of cereals. By the mid-1980's, the EEC had become the world's third largest wheat exporter. The perceived encroachment on United States markets and the use of export subsidies facilitating this encroachment were factors leading to the United States introduction of the counteracting Export Enhancement Program in 1985. The subsequent "export subsidy war" has reinforced the lower levels of worldwide prices for grains and oilseeds.

In world markets, the prospects for agricultural prices through the balance of the 1980's and in the 1990's will depend crucially on the success of efforts to reduce protectionism in world agricultural trade as well as on effective international cooperation to foster economic growth in the world economy. There is emerging recognition among many nations that agricultural protectionism and subsidization constitute a major global problem that can probably be tackled successfully at the multilateral level. The current negotiations in the General Agreement on Tariffs and Trade (GATT) provide a forum in which some reform of trade-distorting national agricultural pol-

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"The Free Trade Agreement endorses the status quo as far as energy trade is concerned, and it provides an important guarantee of future access. . . . Overall, Canada will benefit from free trade in energy."

Canadian Energy Development

By ROBERT N. McRAE

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THE preliminary transcript of the Canadian-United States Free Trade Agreement (FTA) contains the following statement about free trade in energy¹:

There is broad agreement to assure the freest possible bilateral trade in energy, including nondiscriminatory access for the United States to Canadian energy supplies and secure market access for Canadian energy exports to the United States.

Both sides have agreed to prohibit restrictions on imports or exports, including quantitative restrictions, taxes, minimum import or export price requirements or any other equivalent measure, subject to very limited exceptions: (1) short supply or prevention of exhaustion of a finite energy resource, but only if the exporting Party provides proportional access to the diminished supply and does not otherwise discriminate on price; or (2) national security, to supply military establishment or critical defense contracts, respond to a situation of armed conflict, prevent nuclear proliferation or respond to direct threats to [the] supply of nuclear materials for defense purposes.

Both sides have agreed to . . . allow existing and future incentives for oil and gas exploration, development and related activities in order to maintain the reserve base for these energy resources.

The principles stated in the Free Trade Agreement do not significantly alter the current Canadian-United States energy trade situation. Oil, natural gas and coal flow without restriction between Canada and the United States. Electricity exports are subject to a greater degree of regulation. However, the deregulation of Canada's oil and natural gas trade has occurred just recently. In 1985, Canada introduced the "Western Accord," which deregulated the oil sector as of June 1, 1985, and specified that the natural gas industry would be deregulated as of November 1, 1986.²

Oil imports and short-term (contracts for less than two years) exports are now unhindered by government regulation. Oil companies have been quick to seize this op-

¹Energy is referred to in its broadest sense, and includes oil, natural gas, electricity, coal and uranium.

²See J.F. Helliwell, M.E. MacGregor, R.N. McRae and A. Plourde, "The Western Accord and Lower World Oil Prices," *Canadian Public Policy*, vol. 12, no. 2 (June, 1986), pp. 341-355.

³See J. N. McDougall, *Fuels and the National Policy* (Toronto: Butterworths, 1982).

⁴For example, at its peak in 1973, exports of oil and gas represented 58 percent and 42 percent of Canadian production, respectively.

portunity, and for the first half of 1987 Canada was the largest exporter of oil and oil products to the United States. Oil shipments have been redirected under deregulation so that more oil is exported to the midwest region of the United States (north-south trade), and less oil is sent across Canada to Montreal (east-west trade). Natural gas exporters can now discount their prices to compete with United States suppliers in the spot market; and Canadian export permits are no longer withheld pending the establishment of sufficient domestic proven reserves.

Canada exports oil, natural gas and electricity to the United States, and imports coal and electricity from the United States. However, to complete the energy trade picture, it should be noted that Canada also imports oil from other countries, and exports coal to other countries. This paradoxical situation involving the simultaneous import and export of oil and coal can be explained by the geography of Canada and by the localized source of energy reserves. Nearly all Canada's oil, natural gas and coal deposits are located in western Canada, and the major markets for these resources are overseas for coal, the United States and central Canada for oil and gas. Therefore, oil is imported into the Atlantic region and Quebec; domestic oil is exported to the United States; coal is imported into Ontario from the United States; and domestic coal is exported from British Columbia.

For over three decades, Canada has had an energy trade surplus with the United States; currently, Canada has a huge trade surplus. In 1986, Canada exported \$5.8-billion and imported \$4.4-billion worth of oil; exported \$2.5-billion worth of gas; exported \$1.1-billion worth of electricity; and exported \$1.9-billion and imported \$800-million worth of coal.

Under the Free Trade Agreement, neither country can return to some of its past energy policies: the United States gains access to Canadian energy, while Canada gains access to United States markets. Canada has a long history of nurturing and protecting its energy industries.³ Canada has also pursued policies aimed at protecting its consumers by guaranteeing that Canadians have priority access to domestic energy supplies.

Energy exportation has always played an important role in the development of Canada's oil, gas and coal reserves, and exportation is increasingly becoming an important option for surplus electricity.⁴ Oil and gas pipe-

lines have been built from western Canada to the United States, and electrical transmission lines have been constructed to interconnect United States and Canadian electric utilities.

But at different periods in the past, the United States and Canada have restricted the flow of energy trade. Over the last one-and-a-half decades, it has been Canada which, from the 1970's until about 1985, restricted the exportation of oil and gas. Restrictions on oil were more severe, and involved a gradual elimination of light crude oil exports from 1975 to 1977 (although heavy oil exports continued to be allowed). From 1973 to 1985, Canada regulated oil prices, holding them below world levels and imposing a tax on oil exports to bring the export price up to the world price.

During this period, no new natural gas permits were issued under Canada's "exportable surplus" policy, but existing export licenses were honored.⁵ Gas export volume could have remained fairly constant until the 1990's, when long-term export contracts lapsed. But Canada's gas export volume dropped off sharply in the 1980's because of the relatively high export price, and the United States began experiencing an excess supply of natural gas.

ENERGY AND THE FTA

To understand why the present Conservative government of Canada would not hesitate to include energy in the Free Trade Agreement (FTA), one has to go back to the introduction of the National Energy Program (NEP) by the Liberal government in October, 1980.

The philosophy of the NEP centered around isolating Canada from world and United States oil prices, protecting the Canadian consumer through low domestic oil and gas prices, and attempting to increase Canadian participation in the energy industry through discriminatory tax treatment and nationalization.⁶

According to the NEP, the specific goal of Canadian participation in the petroleum industry was to attain 50 percent ownership by 1990. To meet this goal, the NEP introduced several policies. Petro-Canada, Canada's national oil company, was given the retroactive right to a 25 percent "back-in" on any petroleum discovery in the Canada Lands (offshore, Yukon and Northwest Territories). No production permit could be issued in the Canada Lands unless Canadian ownership was greater than 50 percent. The earned depletion allowance was replaced with a grant called the Petroleum Incentive Pay-

ment (PIP), which was more generous toward exploration activity than development activity, and provided more incentives for work in the Canada Lands than in the traditional areas of western Canada. In addition, the federal government promised to buy several of the large foreign-owned petroleum companies.

The current Canadian government believes in a relatively free market for energy—and has introduced policy changes in that direction, including dismantling of the NEP, removing the "surplus test" on natural gas exports, abandoning nearly all export restrictions on oil and natural gas, and announcing a new export policy for electricity that will reduce federal control.

The Free Trade Agreement is a natural extension of policy for a government committed to allowing the marketplace to allocate resources with a minimum of government intervention. By agreeing to free trade in energy, the federal government is trying to make it impossible for any future government to introduce a policy like the NEP—to the delight of energy producers and to the dismay of energy consumers.

Canada has been able to export a substantial volume of oil to the United States since 1985, the year of oil deregulation in Canada. One reason for this phenomenon is that energy demand in Canada declined sharply from 1979 to 1983, rose slightly in 1984, and has remained virtually the same since then. In particular, oil demand fell very rapidly from 1979 to 1984, and has since remained more or less at the same level. Hence, there has been more oil available for export.

The National Energy Board (NEB) forecasts that oil demand in the future will grow by a rate of only 1.5 percent to 1.9 percent per annum, depending on whether oil prices conform to a high or low demand scenario, respectively. Similarly, the availability of surplus electricity for export in the 1980's has been due to lower electricity demand growth than had been expected.

The same phenomenon of declining energy demand has occurred in the United States. Conservation efforts, interfuel substitution and the capacity for interfuel switching by many large industrial and electrical generation users have kept United States gas sales declining. Hence, Canadian gas exports have also declined over the last few years, despite their competitive pricing.

An important but unresolved question regarding future energy demand in both Canada and the United States is how much further technological changes and conservation-oriented changes will reduce demand. Canada and the United States have traditionally been much more energy intensive than other industrialized countries; but if energy intensity in the United States and Canada continues to decline toward the levels found in other countries, then energy demand will also decline.

Under free trade, the United States has gained non-discriminatory access to Canadian energy supplies. Some have argued that Canada has given up its sovereignty over energy resources. This, however, may be an

⁵The "exportable surplus" policy was once adopted by the National Energy Board to protect Canadian consumers by allowing for their foreseeable requirements before export permits were issued. Until 1986, the implementation of this policy involved discovering natural gas reserves that exceeded by 25 times the estimated domestic demand.

⁶For details about the NEP, see R.N. McRae, "A Major Shift in Canada's Energy Policy: The Policies and Impact of the National Energy Program," *The Journal of Energy and Development*, vol. 7, no. 2 (1982), pp. 173-198.

overstatement. It is true that Canada, under the present terms of the FTA, cannot initiate an energy policy that will cut off exports to the United States (they can be reduced only in a shortage situation under the proportional sharing arrangement), nor can Canada discriminate by setting export prices above domestic prices.

These restrictions do limit Canada's energy policy options, but not in ways that are critical—market forces can still be used for resource reallocation, even during a shortage. The current energy policy relies on the market to determine prices, so discriminatory pricing for exports would be inconsistent. Energy producers are relieved that no government in the future could impose the sort of restrictions that existed under the NEP.

But the oil- and gas-consuming provinces, especially Ontario, are unhappy at the constraints the FTA places on future energy policy options that could have been used to protect them from price rises or unexpected fuel shortages.

THE OIL TRADE

What is the likelihood that Canada will be able to increase its exports of energy products into the United States? After all, the Free Trade Agreement assures Canadian access to the United States market.⁷ Oil reserves have been declining since 1969, whereas gas reserves have been continuously increasing. Clearly, Canada will find it more difficult to continue supplying the United States with oil than with natural gas in the future. To free more Canadian oil for export to the midwest, as part of the FTA the United States has agreed to allow exports of Alaskan oil to Canada, subject to the condition that Alaskan oil be transported to Canada in United States flag vessels. This amount would be equal to about one-sixth of Canada's current exports of oil to the United States.

The latest National Energy Board (NEB) report provides further evidence of the ability of Canada to continue to be a major exporter of oil to the United States.⁸ Under a high-price scenario, Canada would remain a net oil exporter until 2005, but under a low-price scenario Canada would become a net importer in 1993. However, under both scenarios Canada would continue to be a net importer of light and medium crude oil, and all exports of such crude would cease by about 1990.

Although Canada is currently the largest exporter of oil and oil products to the United States, this is not likely

to continue much longer. Canada does not have an abundant supply of low-cost conventional oil; however, Canada does have abundant reserves of heavy oil and oil sands, which are relatively high-cost sources of oil. Future development of these nonconventional sources of oil is going to be very dependent on the world oil price, which is highly unstable, although in the long run (about a decade) most experts expect the real oil price to be higher than it is today.

Under free trade, it is possible that concerns about the security of the international oil supply could lead the United States government to provide some investment backing for the development of Canada's oil sands, assuming, of course, that such development is not already being undertaken by the private sector. Although it is unlikely that this will happen, such a move would increase the oil supply and enhance the security of the oil supply for both the United States and Canada.

Even if Canada is not able substantially to increase the volume of oil exports, Canadian oil producers will still benefit from the FTA because small United States tariffs on crude oil imports and rather large tariffs on petrochemical products will be eliminated; in addition, the United States will not be able to place an additional tariff on oil, as had been proposed.

NATURAL GAS

Canadian exports of natural gas are much more likely than oil exports to increase in the future. Canada has a surplus of natural gas, and Canadian producers are keen to expand their markets. The Canadian surplus was accumulated during the period prior to 1986 when natural gas was priced in relation to oil. Deregulation of natural gas in Canada has meant a drop in prices to all users (especially to large domestic industrial customers), and to United States customers. Canadian natural gas, however, is in fierce competition with United States gas, which has also been in a surplus situation.

Unfettered free trade should allow Canadian natural gas to increase its market penetration, especially when the United States gas surplus diminishes. Such an increase in natural gas exports could have a noticeable impact on the Canadian economy, the extent of which can best be understood by examining a scenario where natural gas exports to the United States are increased by 200 billion cubic feet (bcf) per year, an amount equivalent to 25 percent of the current gas exports.⁹ (This specific scenario is meant to demonstrate the likely impact resulting from an increase in energy exports, and is not intended as a forecast of how much natural gas sales will increase.)

A 200 bcf per year increase in natural gas exports would lead to an increase of about 5 percent in natural gas production and about 3 percent in new reserve discoveries. This expanded activity would lead to an increase in the economic present value of the resource (economic rent) of \$4.2 billion (constant end-1985

⁷Apparently, the Free Trade Agreement does not prevent United States agencies like the Federal Energy Regulatory Commission (FERC) from making decisions that could affect Canadian energy trade.

⁸National Energy Board, *Canadian Energy: Supply and Demand 1985-2005* (Ottawa: Supply and Services Canada, 1986).

⁹Details of the simulation results using the MACE model are contained in R.N. McRae, "Energy Trade Shocks: The Impact of Canadian Economic Activity," in D.L. McKee, ed., *Canadian-American Economic Relations: Conflict and Cooperation on a Continental Scale* (New York: Praeger Publishers, forthcoming).

dollars) over the period 1986 to 1995, of which the gas industry would capture \$1.6 billion, the federal government \$1.0 billion and the producing provinces \$1.7 billion.

A change in the level of natural gas exports could also affect the macroeconomy. In this case, the increase in natural gas exports would lead to an increase in overall exports, in the balance of payments and in the exchange rate; the extra exploration activity would lead to an increase in overall investment; and hence aggregate output (real gross national product) would increase by a modest amount (400 million 1971\$). This impetus to aggregate output would lead to slightly higher levels of consumption, investment and imports and an improvement in government finances. Although these impacts are not too large, it is important to realize that changes in the level of energy trade will have consequences not only for the energy industries but also for the whole economy.

ELECTRICITY AND COAL

Electricity exports to the United States should increase substantially in the future, mostly from capacity displacement, and to a lesser extent from oil displacement and diversity interchange.¹⁰ Electricity exports have been forecast to grow by between 50 percent and 70 percent over the next 15 years. As part of the Free Trade Agreement, Canada promised to "eliminate a discriminatory price test on electricity exports." Currently, the price of electricity exports must be "just and reasonable," which has been understood to be the cost of electricity being displaced in the United States. Since most of the displaced electricity is generated from oil- or gas-fired generators, this means the value of electricity exports has varied with the United States price of oil and gas. The NEB, which regulates electricity exports, stipulates that electricity must be in a state of surplus in relation to foreseeable domestic demand.

Most electricity exports are sold on an interruptible basis. It is expected that in the future a greater share of exports will be firm sales, which are limited in duration and amount.¹¹ The largest exporter of electricity to the United States is Quebec, but New Brunswick, Ontario, Manitoba and British Columbia all export electricity. Canada produces most of its exported electricity (about

¹⁰See E.F. Battle, G.S. Gislason and G.W. Douglas, *Potential Benefits and Costs of Canadian Electricity Exports* (Calgary: Canadian Energy Research Institute, Client Research Report No. 83-1, April, 1983).

¹¹Electricity exports are of five types: inadvertent, diversity exchange, interruptible, cyclical exchange and firm sales. "Electricity exports are forecast to grow to 60,000 gigawatt hours with a much higher share of firm [sales]—50 to 75 percent by 2,000 instead of 25 percent during 1986." J.A. Osten, *Trading Energy for Growth and Profit*, presented to Energy Options conference in Calgary, Alberta, June 15–June 16, 1987.

¹²Production and/or transportation constraints do not currently hinder the expansion of electricity or gas exports, as there exists excess capacity utilization of 55 percent and 44 percent, respectively.

72 percent) from hydroelectric sites, which are generally relatively inexpensive, and most of the remainder from base-load coal-fired plants.

Environmental concerns in the United States have almost stopped the construction of nuclear power plants, and concerns about acid rain and air pollution have slowed the construction of coal-fired electrical plants. Therefore, Canada is in a good position to increase its electricity exports to the United States steadily. If these exports are to be firm sales, then additional electrical generation capacity will have to be constructed, of which some may be partially or wholly dedicated to export sales.

Coal trade should be unaffected by the Free Trade Agreement. Japan, not the United States, is the largest consumer of Canadian coal. The only possible effect of free trade might be an indirect one. The provinces of western Canada have been pressuring Ontario Hydro to consume more domestic coal and to use less imported coal. But transportation costs are a barrier to increasing this trade, and some type of subsidy needs to be introduced in the future to enhance this trade. Any increase in the use of western Canadian coal will be at the expense of coal imported from the United States—which could be viewed as a violation of the spirit of free trade.

PROPORTIONAL SHARING

Canada has gained the right of secure access to United States markets and in the case of natural gas and electricity that access is likely to expand.¹² These are the benefits of the FTA. What are the costs? Under free trade, Canada will be constrained in how it can impose restrictions on energy trade volumes and prices. In the case of diminished supply, the United States is allowed proportional access. How important is this?

The concept of proportional sharing of future shortages is a touchy subject among Canadian energy consumers. Oil would likely be the first fuel to be affected by proportional sharing. But as long as there is access to global markets, Canada and the United States can meet any North American shortage with imports. If there is a global "shortage" caused by exhaustion of a nonrenewable resource, then the oil price will rise to eliminate the shortage eventually; if a shortage is caused by an unexpected disruption or an artificial disruption of supply, say by OPEC (Organization of Petroleum Exporting Countries), then it is likely to be only for a short duration (like the 1973–1974 embargo by the Arab members of OPEC) and price increases will alleviate the shortfall.

(Continued on page 130)

Robert N. McRae is the author or coauthor of a number of publications related to energy demand in Canada and to Canadian energy policy. He has contributed to the building of the MACE (MACro-Energy) model, which has been used extensively to analyze the impact of Canadian energy policy.

"The industrial development of the Canadian economy over the past 15 years has been the result of a series of dramatic political and economic events in the international community and at home. The environment for economic decision-making is different now; the opportunities for industrial development have changed."

An Overview of Canada's Economy

BY ISABEL B. ANDERSON

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CHANGES in Canada that began in the 1970's were dramatic. Today, there are different political leaders, new political parties and different political parties in power; there are new political philosophies, new priorities and modified, if not new, policies at both the federal and provincial levels of government. Traditional markets for Canadian exports, largely for primary products, have been weakened; Canadian manufacturers want trade barriers to be eliminated; Canadian producers are looking for new markets outside Canada; and Canadian entrepreneurs are finding opportunities for investment throughout the United States. Government bureaucracies have changed, and the pattern of public support for industrial development has been adjusted to reflect the need to support the sources of future growth and not just the areas of weakness in the industrial development of the country.

The oil crises of the 1970's, the "world recession" of the early 1980's (low commodity prices and high interest rates), modifications in the pattern of public support for industrial development, and changes in the political environment within the country affected the pattern of industrial development in Canada. Their impact is only now becoming apparent.

The rate of economic growth in the advanced industrialized countries slowed markedly after the beginning of the 1970's. More than cyclical variations seemed to explain the slower pace. For some, including Japan, West Germany, France and Italy, the average annual rate of growth of real output in 1974-1985 was from three to more than five percentage points below the average in 1951-1973. For others, including Canada and the United States, the rate was less than two percentage points lower.¹

Compared to the 80 years from 1870 to 1950, the average annual rate of growth of output in the 10 years from 1974 to 1985 was higher in Japan, France and Italy, and

lower in the United States, West Germany and the United Kingdom. There was little difference in the two rates in Canada.² Dramatic events in the world economy in the 1970's and early 1980's, combined with dramatic events at home, took the rate of growth of the Canadian economy back to the longer-term rate that had prevailed through the development of the Canadian west, and World Wars I and II.

The Canadian economy is small and open, a natural-resource-based economy in which about one-fourth of national output comes directly from the production of export-type goods, many of which can be described as natural-resource intensive in the production process. Yet there is a relatively high level of industrial development in the economy; Canada is a major industrial country in international comparisons of economic activity.³

The industrial structure of the Canadian economy has shifted toward natural resources in recent years and toward nonagricultural primary production. The location of the activity has shifted toward the three western provinces: Saskatchewan, Alberta and British Columbia. Since the early 1970's, growth has been highest in the production of services and in nonagricultural primary production; growth has been low in manufacturing and it has been negative in agriculture overall. The highest rates of growth have been in the three western provinces; the lowest rates have been in central Canada, in Quebec and in Ontario.

This pattern of development promises to continue at least through the 1980's. A political shift toward cooperative federalism — cooperation between the federal and provincial governments in the development of policies for economic development — is now well established. The Western Diversification Initiative was introduced in August, 1987. A bilateral agreement for free trade between Canada and the United States has been negotiated; this agreement could create more certainty about future markets in the United States for Canadian primary products and holds the prospects of larger foreign market for Canadian manufactured goods.

THE NATIONAL PATTERN

Sixty percent of the real output of the Canadian econ-

¹Charles Adams, Paul R. Fenton and Flemming Larson, "Potential Output in Major Industrial Countries," *Staff Studies for the World Economic Outlook*, Research Department of the International Monetary Fund (Washington, D.C.: International Monetary Fund, August, 1987), p. 3.

²Ibid., p. 3.

³Ibid., pp. 1-38.

omy takes the form of services.⁴ By far the largest part of this is in the form of private services (67 percent), that is, finance, insurance and real estate, trade, and community, business and personal services. Only one-third of the output takes the form of nonbusiness services, those provided by governments, educational institutions and hospitals, and related health and social services.

The other 40 percent of the real output takes the form of goods. The largest part of these are manufactured goods (42 percent). Construction and utilities, transportation, storage and communications taken together, each account for 15 percent of this output, mining 12 percent, agriculture 8 percent, utilities other than transportation, communications and storage 6 percent, and logging and forestry 1 percent.

Employment is largely in the nonagricultural sectors of the economy. About 95 percent of employed workers can be found there. Of these, most work in the service industries (71 percent), and of these, most provide commercial services (67 percent). Not quite 30 percent of employment in the nonagricultural industries in Canada is in the production of goods.⁵

There have been elements of growth in services, the labor-intensive industries, since the early 1970's, and in the capital-intensive industries, the nonagricultural primary producing industries. In terms of real output, services have grown more rapidly than the output of goods. The average annual rate of growth of services has been 3.8 percent; it has been 2.9 percent for goods. Business services have grown at rates ranging from 3.5 percent to 4.5 percent per annum on average; rates have risen higher for the real gross domestic product (GDP) at 3.4 percent per annum.

Among goods, the utilities other than transportation, storage and communications have grown rapidly (5.2 percent per annum on average), as have transportation, storage and communications (4.2 percent), construction (3.5 percent), and durable manufactures (3.4 percent). The rates of growth of logging and forestry, agriculture, nondurable manufactures and mining have been below the average for the goods-producing sector of the economy.

Employment in the agricultural sector fell between 1972 and 1986, but it grew rapidly in business services (about 3.5 percent per annum on average compared with a rate of growth of 2.0 percent in employment overall).

⁴The statistical information of economic activity used here has been derived from the *Bank of Canada Review*, various issues, and from several reports produced regularly by Statistics Canada: 15-512 Occasional, *Gross Domestic Product by Industry, 1961-1980*; 15-001 Monthly, *Gross Domestic Product by Industry, June 1987*; 61-202 Annual, *Provincial Gross Domestic Product by Industry, 1983*; 71-529 Occasional, *Labour Force Annual Averages, 1975-83*.

⁵Statistical information on employment from the various official records is collected in W. Garnett Picot, *Canada's Industries: Growth in Jobs over Three Decades* (Ottawa: Supply and Services, Canada, 1986).

In the primary producing industries other than agriculture, employment grew at 3.4 percent per annum. There was little growth in employment in manufacturing and it declined in construction.

The share of finance, insurance and real estate in the total output of services has increased by about three percentage points since the beginning of the 1970's. The share of community, business and personal services has increased by four percentage points, and the share of nonbusiness, that is, government and related services, has fallen by seven percentage points.

The output of the mining sector in Canada has declined as a proportion of the total output of goods since the beginning of the 1970's (6 percentage points), although there has been a larger increase in employment in that sector than in any of the goods-producing industries of the economy. The output of goods in the form of transportation, storage and communications as a proportion of the total output has increased 3 percentage points, in the form of utilities other than the latter, 2 percentage points, and in the form of construction, 1 percentage point even though a smaller proportion of employment is to be found there now. There has been a shift within manufacturing from nondurable to durable goods production.

DEVELOPMENT IN THE PROVINCES

Output and employment are not distributed evenly across Canada; most output and employment are found in Ontario and Quebec. The distribution of output between services and goods is not the same everywhere in the country either. Just over 70 percent of provincial output in Nova Scotia and Prince Edward Island is in the form of services. Services make up only a little more than 50 percent of the output of Saskatchewan and Alberta. They are between 61 percent and 69 percent of the output of the other provinces.

Between 35 percent and 40 percent of the services produced in Canada are produced in Ontario. About one-fourth are produced in Quebec, and some 10 percent to 15 percent are produced in British Columbia and Alberta. Similarly, the largest part of the output of goods comes from Ontario (39 percent) and Quebec (21 percent). Yet close to one-fifth is produced in Alberta, and about 10 percent is produced in British Columbia.

Half the manufacturing is done in Ontario, with a little more than one-fourth in Quebec. Thirty percent of construction is in Ontario, with one-fifth in each of Quebec and Alberta, and 14 percent and 5 percent, respectively, in British Columbia and Saskatchewan. Almost 70 percent of the output of mines, quarries and oil wells comes from Alberta, 8 percent from Ontario, 7 percent from Saskatchewan, and 6 and 4 percent, respectively, from British Columbia and Quebec. Over one-half of all logging and forestry is done in British Columbia, 15 percent each in Ontario and Quebec and 6 percent in New Brunswick. About one-third of the output of electrical

power, gas and water utilities is produced in Ontario, 30 percent in Quebec, 10 percent each in British Columbia and Alberta, 4 percent in Manitoba, and 3 percent each in New Brunswick and Saskatchewan.

As in constant dollars, so in current dollars, the rate of growth of the output of services, on average, has been higher (12.5 percent per annum), although not by much, than the rate of growth of the output of goods (12.0 percent per annum). Nevertheless, the growth in the output of services has been far more rapid in Alberta (16.2 percent per annum), British Columbia (14.2 percent), and Saskatchewan (13.2 percent) than it has been in the country as a whole.

The highest rate of growth of the current dollar output of goods in the country (19.1 percent per annum on average compared with 12.0 percent per annum for the nation as a whole) has been in Alberta, which produces 18 percent of the total output of goods in the country. The rate of growth of the current dollar output of mines, quarries and oil wells has also been substantially higher in Alberta (24.7 percent per annum on average), than in the country as a whole (18.5 percent).

In the country as a whole, the growth in the current dollar value of the output of manufacturing (11.2 percent per annum) has been below the rate of growth in the value of all goods taken together (12.0 percent) since the beginning of the 1970's. The rate of growth of employment in manufacturing in the country has averaged 0.2 percent per annum, yet it has been 2.8 percent in Alberta and 1.3 percent in Saskatchewan. The rate has been less than 1 percent in Ontario and it fell in Manitoba, Nova Scotia and Quebec slightly more than 1 percent.

The highest rates of growth in the current dollar value of construction have been in Alberta (15.3 percent per annum), Saskatchewan (14.7 percent), Prince Edward Island (10.7 percent) and Nova Scotia (10.1 percent). The rate of growth of employment in construction has been 5.1 percent per annum in Alberta and 4.0 percent in Saskatchewan, compared with a reduction in the country as a whole of 0.7 percent per annum on average.

The growth of employment in transportation, communications and other utilities has been highest in Alberta at 4.2 percent per annum on average and in British Columbia at 2.2 percent, compared with an average rate of only 0.9 percent per annum in the country as a whole. The growth in employment in finance, insurance and real estate has been highest in Alberta, at 7.2 percent per annum on average, in Saskatchewan at 5.9 percent and in British Columbia at 4.2 percent. In every other province, it has been less than the rate for the country as a whole (3.1 percent per annum). Employment in trade has also grown fastest in Alberta (4.1 percent per annum), Saskatchewan (3.3 percent) and Quebec (1.7 percent).

Thus, the proportion of the services in Canada produced in Ontario, Quebec and Manitoba has decreased since the beginning of the 1970's, while the proportion

produced in Alberta, British Columbia and Saskatchewan has increased. The proportion of the Canadian output of goods produced in Ontario, Quebec, Manitoba and Newfoundland has also decreased since the 1970's, but the proportion produced in Alberta has increased. The proportion of the output of mines, quarries and oil wells produced in Alberta increased dramatically from just over 36 percent in 1971 to 69.8 percent in 1983. It decreased in Ontario, Quebec, Saskatchewan and British Columbia.

Ontario lost some of its share of manufacturing and so did Quebec, but the shares of Alberta, Nova Scotia and British Columbia increased. The proportion of the national output of construction fell in every province except Alberta, Nova Scotia, Saskatchewan and British Columbia. It increased dramatically in Alberta from 12 percent at the beginning of the 1970's to some 25 percent at the beginning of the 1980's; it went from 3 to 5 percent in Saskatchewan. Quebec and Nova Scotia lost some of their shares of forestry. The most dramatic increase in the provincial distribution of forestry was in British Columbia, where the proportion of the total national output went from 52.5 percent in 1971 to 56.2 percent in 1983.

The shift in the industrial structure of the Canadian economy toward services and primary production since the beginning of the 1970's is clear. The shift in industrial activity toward Saskatchewan, Alberta and British Columbia is also clear. The overall growth of the Canadian economy was affected by the slow growth in manufacturing in central Canada. Services were an important part of any growth that occurred in the Atlantic provinces, while there was little growth in economic activity in Quebec relative to the rest of the country.

The most dynamic part of the Canadian economy since the beginning of the 1970's, therefore, has been in the three most westerly provinces, Saskatchewan, Alberta and British Columbia. Primary production and business services and construction have grown rapidly there. The slow pace of manufacturing has been most noticeable in Quebec and Ontario.

POLICY AND INDUSTRIAL DEVELOPMENT

Canada uses public policy to promote a configuration of industrial development that creates a particular form of economic development. Canadian confederation was born in 1867 of a desire to create an environment in which every one of the British North American colonies would participate in the economic growth and development that was possible within a single political entity called Canada. That objective still underlies the choice of public policy to promote industrial development.

The Department of Regional Economic Expansion (DREE) was established in the 1960's. Through the 1970's, it helped the "have-not" provinces (those in which per capita incomes have been persistently below the national average) to develop programs that were expected to generate consistently higher levels of per capita in-

come within the province. The focus of attention was the Atlantic provinces and Quebec, although Saskatchewan also received attention because per capita income there had been especially variable.

By the end of the 1970's, the attention of the policy-makers had shifted to the problems of industrial adjustment, the need for changes in Canadian manufacturing in response to changes in the world pattern of production of manufactured goods. Eventually, DREE became the Department of Regional Industrial Expansion (DRIE). Then a program to promote the diversification of industrial activity in western Canada was added in August, 1987, with the Western Diversification Initiative (WDI). In this manner, Canada put together a collection of government activities designed to provide incentives for industrial development in some regions of the country as opposed to others, thus creating equal opportunities for economic activity throughout the country.

A system of federal and provincial government consultations on each project was put into place with DREE. It was carried over to the DRIE, and now is into place for the WDI. In 1982, the system of inter-government cooperation to develop programs that assure equal economic opportunities in all parts of the country was entrenched in the Constitution Act in Part III of Schedule B, the "Equalization and Regional Disparities" part of the Canadian constitution.⁶

INTERNATIONAL COMMITMENTS

Policy in a small, open economy like the Canadian economy where international trade is a large part of total economic activity must be developed in the context of the country's international commitments, especially its international trading commitments. Canada is a signatory to the General Agreement on Tariffs and Trade (GATT) and, as a high-income country and an active participant in the international politics of the United Nations, it has participated in the debate over the promotion of development in the developing countries.

The international economic environment has changed over the past 15 years. Almost all the major developments since the beginning of the 1970's have been especially significant for the industrial development of Canada. The effectiveness of the Organization of Petroleum Exporting Countries (OPEC) in forcing the international price of petroleum up in 1972-1973 and in 1978-1979 was significant because Canada is a world supplier of petroleum. Low commodity prices during the world recession of 1981-1982 were significant, because Canada is a world supplier of a wide range of those commodities: grains, metals and minerals. The high interest rates of that recession had a major impact because Canadians borrow extensively in world money markets to finance resource and industrial development.

Canada, like other countries, uses a variety of policies to promote industrial development and, as in many small countries, its policies often involve promoting industries that produce for export markets. The Tokyo Round of the GATT negotiations concluded with clear recognition that there had to be a resolution to the problems created when nontariff barriers to trade, especially subsidies, are used to promote domestic economic activity (especially in export industries) at the expense of economic activity in other countries. At the same time, trade policy in the United States has become much more protectionist since the beginning of the 1970's; the largest markets for most Canadian exports have been in the United States.

There have been marked changes in world markets for primary products: agricultural products, metals, minerals and forest products, all important in Canada's export trade. The pattern of production of manufactured goods in the world has changed dramatically since the 1960's. The place of manufactures in the industrial structure of a country like Canada is not yet clearly defined for the 1980's and beyond. Moreover, the GATT has not yet devised a way of controlling the use of nontariff barriers to promote domestic economic development, or a method of measuring trade-distorting subsidies.

The dramatic events in the international community during the 1970's and early 1980's precipitated a shift in the approach to confederation in Canada. The centralist approach of Prime Minister Pierre Elliott Trudeau's years has been replaced by a system of cooperative federalism that has become clearly defined since the government of Prime Minister Brian Mulroney took power in September, 1984.

The oil crises of the 1970's were not crises for the western Canadian petroleum producers, but the fight between the federal and provincial governments over which level of government had the right to tax resource rents precipitated a crisis. The high international energy prices represented a crisis for Canadian consumers, especially those in central and eastern Canada, and the National Energy Program (NEP) was introduced in 1980 in an attempt to keep the prices of petroleum products in Canada below the world price; with this program the world oil crises were translated into a crisis of the Canadian constitution.

The resource provinces, those with large stocks of non-renewable resources, especially oil and gas, fought hard to gain control over a policy that could affect the production and management of those resources and the primary products derived from them. That struggle eventually led to the introduction of the "resource amendment,"

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⁶Canada, Department of Justice, *A Consolidation of the Constitution Acts, 1867 to 1982* (Ottawa: Supply and Services, 1986), p. 70.

"Canadians have established a tradition of fighting long and hard to maintain provincial and national sovereignty. The latest sovereignty question — the free trade agreement — is just another phase in the growth of nationalism in Canada, a country that in the twentieth century has been transformed from an isolationist and agricultural society into an international political and economic power."

Sovereignty and Nationalism in Canada

BY R. SCOTT BOMBOY

Assistant Editor, Current History

CANADIAN society has undergone a major transformation since the end of World War II. Before 1939, Canada was an isolationist nation, exercising its foreign policy through its membership in the Commonwealth of Nations. The Canadian economy was agricultural and resource-exporting in nature, but its economy was dependent on other nations (especially the United States). The worldwide depression of the 1930's, therefore, had a dramatic impact on Canada, with unemployment and financial ruin on a par with, if not exceeding, the depression in the United States.

World War II gave Canada an international role in the conflict, different from its role in World War I. This active and independent role gave Canadians a feeling of identity and fostered an increase in Canadian nationalism, except in the province of Quebec, where many citizens violently objected to being drafted by the federal government to fight in a "British" war.¹

Historically, the provinces of Canada have played a major role in governing their people; the federal government became a prominent power in the provinces only because of the need for a strong central government dictated by the economic emergencies of the 1930's. At the conclusion of World War II, the stage was set for the development of two trends that would dominate the next 40 years of Canadian history.

The first trend was the struggle between the federal government and the provincial governments for control of the right to govern. When Canada became a confederation, its functional constitution was the British North America (BNA) Act of 1867, which gave implied but vague powers to the central government to control revenues and social programs in the provinces. After 1867, the two parties frequently argued over their constitutional rights, but the BNA Act could be amended only by an act of the British Parliament. In the post-World War II era, the issues of provincial sovereignty and of patriation of the constitution (the Canadian acquisition from Britain of the legal right to amend the BNA Act) became

major themes in Canadian political and social life.

The second trend in Canadian society after 1945 was a basic change in the nature of Canada's economy. The wartime relationship between Canada and its allies not only gave Canadians a national identity separate from the Commonwealth, but also left Canada with a large stockpile of wealth. This capital surplus, combined with new international contacts, led to an increase in postwar industrialization and a major growth in investments by the United States in Canada.

Thus, the emphasis of Canada's economy shifted from the agricultural and resource sectors to the manufacturing and service sectors. This change was accelerated by the discovery of oil in Alberta in 1947. Many Canadian nationalists were appalled by the sudden control foreigners (i.e., the United States) exercised over the Canadian economy; their antagonism promoted the growth of economic nationalism, which embraced protectionism as a response to the alleged efforts of foreigners to undermine Canadian sovereignty.

The rapid development of the economy also escalated the conflict between the federal government and the provinces over the power to spend, tax and control resources. For the most part, the constitution gave control over revenues to the central government. However, the shift to industrialization made Canada an urbanized society. Increased urbanization combined with an influx of European refugees after the war to strain the social infrastructures of the provinces severely. The provincial governments, in turn, needed more and more funds from the federal government for social programs. Federal control over the funding to support the social infrastructure was viewed on the provincial level as yet another effort to undermine the sovereignty of the provinces. Nowhere was this fear of losing provincial control over sovereignty more apparent than in the province of Quebec.

QUEBEC AND SOVEREIGNTY

Quebec, a traditionally conservative society, grew increasingly wary of what it viewed as attempts by the Eng-

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¹Wayne C. Thompson, *Canada 1987* (Washington, D.C.: Stryker-Post Publications, 1987), p. 43.

BOOK REVIEWS

ON CANADA

A PASSION FOR IDENTITY: AN INTRODUCTION TO CANADIAN STUDIES. *Edited by Eli Mandel and David Taras.* (Toronto: Methuen Publications, 1987. 413 pages, selected readings, names index and index, \$15.95, paper.)

The editors' stated purpose is "to present interpretations from different fields of study and scholarly tradition as well as to integrate diverse materials" in order to explore the broad spectrum of Canadian realities for the understanding of the student. This is accomplished in admirable fashion.

It must be remembered that United States-Canadian institutions may be more closely related than the thinly stretched links between East and West Canada. Still, it is David Taras's belief that the roots of Canadian unity are "deeply embedded," and he selects a series of articles to strengthen his thesis. Harold Innis details the history of the Canadian fur trade and its significance to both Canada and England, whose industrial growth was greatly enhanced by this exchange. Fur, fish and lumber were the products that made possible the availability of European goods to North American peoples. W. L. Morton maintains that, despite the major French and English Canadian cultures, the common monarchical spirit and law contributed to a "unity under the Crown admitting of a thousand diversities."

Both Canada and the United States were molded by their frontier experience, but in Canada the Canadian-British relationship "helped perpetuate elements of a set of values having Old World origins and a more conservative character."

The second section of this volume deals with Canada's regional industries, geographical and climatic differences, and varying national identities and histories. Canada's major population centers are located near its southern boundary, while most of its land is to the north. Native populations are still significant in Canada's culture; but the French and English regions and backgrounds are major factors in politics and industry. The editors have selected a fine collection of articles describing the diversity in modern Canada.

O.E.S.

AN INTRODUCTION TO CANADIAN-AMERICAN RELATIONS. *By Edelgard E. Mahant and Graeme S. Mount.* (Agincourt, Ont.: Methuen Publications, 1987. 319 pages, appendices, bibliography, chronology and index, \$14.95, paper.)

This reissued overview of the history and recent

state of United States-Canadian relations offers a useful account of the association between the two countries from the Canadian point of view. The author points out that United States media devote about two-tenths of one percent of space to anything connected with Canada; he feels that greater United States knowledge of things Canadian is essential to better relations and understanding between the two countries.

Since Canada is the largest United States trading partner, lack of United States knowledge of that country is surprising. Since 1940, Canada has become ever more closely allied to the United States. Canada's 25 million people in the second largest national area in the world are dependent on the United States for defense in a nuclear age, while Canada's territory offers defense in depth to the United States. There are many areas of interdependence; at the same time, many cultural differences make it clear that there are distinctly different Canadian and American values. The editors wonder whether the United States will gradually suborn what are considered the virtues and values of Canada past and present, if the two nations continue on the present path.

O.E.S.

PERSPECTIVE ON A U.S.-CANADIAN FREE TRADE AGREEMENT. *Edited by Robert M. Stern, Philip H. Trezise and John Whalley.* (Washington, D.C.: The Brookings Institution, 1987. 259 pages, tables and index, \$32.95, cloth; \$12.95, paper.)

This work offers a perspective on the history and prospects for the free trade agreement between the United States and Canada signed on January 2, 1988, by United States President Ronald Reagan and Canadian Prime Minister Brian Mulroney. The negotiations over the agreement began in 1986, and (after often stormy sessions) ended in an agreement not yet approved by the legislatures in either country.

Written before the actual signing, this book includes a diverse group of essays and reports that detail the history of the negotiations, their difficulties in all sectors—industrial, political and legal—and possible solutions to these difficulties. Since the United States and Canada are each other's largest bilateral trading partner, they agree on the importance of a free trade agreement. The editors have selected articles explaining United States and Canadian viewpoints, the views of European nations, and the effects of the agreement on foreign investment and on specific industries like auto manufacture, lumbering and agriculture. Conclusions deal with the benefits to be reaped or lost by all concerned.

O.E.S.

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CANADIAN DEFENSE POLICY

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However, it is committed in time of crisis to sending to Norway 4,000 soldiers of the Canadian Air Sea Transportable (CAST) combat group along with two rapid reinforcement fighter squadrons, all stationed in Canada.

In 1987, the government decided to terminate the controversial commitment to divide precious combat forces between the central front in Germany, where the most critical fighting would take place, and the northern flank, where Canadian forces could not arrive quickly enough and in sufficient numbers to make any military difference. (Canada also lacks the strategic transport to maintain two separate logistic lines.) It will now consolidate and increase to 10,000 its forces in southern Germany. This move will enable Canada to contribute a more effective division-size fighting force with a more streamlined logistical tail.

This change was discussed with NATO allies, but some were not pleased by it. To soften its impact, Canada announced that it would continue to supply to the Allied Command Europe (ACE) a battalion group and a fighter squadron, based in Canada, as a part of ACE's small, multinational land and air mobile task force, which could be used on the northern front. Canada will leave its equipment already pre-positioned in Norway and store even more equipment in West Germany for ACE's use. It will add new tanks and other equipment to its units in Europe. Canada also announced its intention to improve its air and sea-lift capabilities, as well as its naval forces in the North Atlantic.

With this reinvigorated commitment to Europe, the government had to take a close look at its manpower needs. Aside from the Canadian Airborne Regiment, which is organized for quick response to threats in Canada, and the Canadian Rangers, a reserve force composed largely of Inuit (Eskimos) and Indians who perform valuable but limited surveillance duty in the Arctic, Canada has too few trained soldiers. Canada will seek to rectify this shortage by tripling its reserve and militia strength to 90,000, and will create additional brigades, chiefly from the reserves, and give them specific pre-assigned wartime tasks and the necessary training and equipment. Responding to concerns over sovereignty, Canada will also give added support to the Rangers and will establish a northern training center and five new fighter bases in the high Arctic.¹⁰

Ties with Europe help Canada avoid the danger of ex-

cessive dependence upon the United States. Such dependence could erode Canadian sovereignty, which the Canadians want to preserve. Canadians draw a distinction between security against hostile armed forces and the "protection of sovereignty." The threat to Canadian security is seen to come from the Soviet Union and the Warsaw Pact. The challenge to sovereignty is seen to come from the United States, which sometimes, wittingly or unwittingly, tends to ignore or override Canadian interests. Canadian Secretary of State Joe Clark commented in 1987 that "the greatest threat to sovereignty in [the] Arctic is the United States."¹¹

THE PROTECTION OF SOVEREIGNTY

These fears for both sovereignty and security have been rekindled in Canada's North, which, in the words of a 1985 External Affairs report, "holds a distinct place in our nationhood and sense of identity." The United States recognizes Canadian sovereignty over the Arctic islands but disputes Canada's claim with regard to the navigation routes between them — the Northwest Passage. The United States occasionally backs up its own interpretation: in 1969, a huge, icebreaking tanker, the *Manhattan*, battered its way through the passage. This was followed in 1985 by the voyage of an icebreaker, the *Polar Sea*. In 1986, three American nuclear attack submarines, traveling by separate routes, surfaced at the North Pole. At no time did Washington seek prior permission from Ottawa. The United States has pledged to inform Canada whenever its submarines enter Canadian waters. But Canada has no independent surveillance system in the Arctic to determine who is entering its airspace or waters. Some Canadians are uneasy about depending on Washington's word on these matters. They know that almost no aspect of American military activity is kept so secret as its submarine movements.

American voyages through waters claimed by Canada elicited public outcries and symbolic attacks by low-flying private Canadian aircraft dropping Canadian flags and rock-weighted messages on the *Polar Sea's* decks. They also provided support for increased military spending, under the rubric of "sovereignty protection." Canadian Defense Minister Perrin Beatty stated in 1987 that "to a very great extent, the status of our sovereignty at the end of the century will be judged by the contributions we make to our own defense."¹²

Beatty's statement underscores Canada's concern for both its sovereignty and its security and how these worries intersect in the Arctic. Canada faces a growing threat from the Arctic area, whose importance as a military theater of operations is rising. This threat is a cold reality to Canadians, who have long considered the Canadian North as an impenetrable and natural barrier. No longer is it true, as a Canadian officer said in the 1940's, that "there's nowhere to go and nothing to do once you get there." It remains an unlikely theater for ground combat operations. But Soviet long-range aircraft armed with

¹⁰Challenge and Commitment, pp. 35, 39, 60-65.

¹¹Toronto Globe and Mail, April 29, 1987, quoted in Thomas C. Pullen, "What Price Canadian Sovereignty," Proceedings, September, 1987, p. 66.

¹²Department of External Affairs, Competitiveness and Security: Directions for Canada's International Relations (Ottawa, 1986), p. 1; Pullen, "What Price," pp. 67-72; Honderich, "Arctic Option," p. 12. Beatty is quoted in Maclean's, January 12, 1987, p. 28.

ALCM's pose a major problem for both Canada and the United States, and necessitate defense as far north as possible. Far more dangerous are nuclear submarines. Covered by ice all year long, the Arctic Ocean nevertheless has sufficient openings to permit submarines to surface and fire. The ice thwarts detection and therefore makes it easier for submarines to hide. Huge submerged mountain ranges further complicate detection, while depths of one kilometer enable submarines to operate comfortably.

THE STRATEGIC ARCTIC OCEAN

The Arctic Ocean is located between the superpowers and is therefore an inviting theater of operations. It is the only ocean from which American nuclear submarines can hit targets anywhere in the Soviet Union. In addition, the United States Defense Department has announced a new "forward" naval strategy, which calls for attacking the enemy as close to his territory as possible in time of war. For this, Arctic operations are essential. The Soviet Union, whose submarine and air bases on the ice-free Kola Peninsula are located north of the Arctic Circle, is no less committed to the Arctic: half of its nuclear attack and missile-launching submarines are deployed in the Arctic Ocean, as are all four of its most modern submarines.

The Canadian government is most immediately concerned about the possibility that Soviet submarines may launch cruise missiles. Since such missiles are slow and have a relatively short range, the submarines must approach their targets as closely as possible. For Canada, this means that Soviet submarines may trespass in Canadian waters, despite the fact that there is little evidence of such intrusions at the present time. There is also the danger that enemy submarines could enter Canadian waters to lay mines that could block sea access to and exits from Canada, to ambush American submarines that might be moving through them, or to pass to the North Atlantic, over which Canadian reinforcements would travel in case of war in Europe.

The frightening thing for Canada is that it does not have a single ship capable of operating in the Arctic except in the summer months. It has neither icebreakers nor minesweepers. With only three conventionally powered submarines, Canada has no boats capable of operating under the ice for more than a few days, even though one-third of its territorial water is covered by ice most of the year. Finally, it has no independent way of knowing what is happening in the Arctic.¹³

The 1987 white paper faced these challenges squarely. It announced a decision to upgrade dramatically Can-

¹³Honderich, "Arctic Option," pp. 7-13. See his book, *Arctic Imperative* (Toronto: University of Toronto Press, 1987).

¹⁴*Challenge and Commitment*, pp. 49-55. "A Defence Plan for Canada," *Maclean's*, June 15, 1987, pp. 18-19. Thomas M. Price, "Canada's Nuclear Fleet: Who Will Pay?" *Proceedings*, September, 1987, p. 105. Beatty is quoted in "New Views on Defense," *World Press Review*, November, 1987, p. 45.

ada's navy, which will be transformed into a "three-ocean navy." Instead of having most of its antiquated fleet in the Atlantic, with only a few ships in the Pacific and none in the Arctic, Canada will build a modern navy capable of operating in all three oceans. It will acquire a half-dozen more frigates to supplement the six that are already being built, 30 minor warships, including Canada's first minesweepers built since the early 1960's, the world's largest and most powerful icebreaker (*Polaris*), which will give Canada an incomparable Arctic presence, a fixed under-ice surveillance system in its Arctic waters, up to 50 new antisubmarine helicopters to replace the nearly obsolete Sea Kings and six maritime long-range patrol aircraft, to be added to its 18 Aurora antisubmarine aircraft.

The controversial centerpiece is the government's decision to acquire 10 or 12 nuclear submarines. For cost reasons, they will be either French Rubis or British Trafalgar boats, not the huge United States-built Los Angeles class submarines. Whatever the final costs, this will be Canada's most expensive defense purchase ever. Critics in both Canada and the United States have decried this decision as depriving the military of sufficient funds for other improvements. But the Canadian government argues that nuclear submarines are an ideal multipurpose weapon for meeting the country's defense needs in all three oceans: they can maintain high speed for long periods and can therefore reach their operational areas faster or be redeployed from one ocean to another more quickly; they are also the only proven vehicle capable of sustained operation under ice.

No critic has advanced a way for Canada to fend off attacking Soviet submarines in time of crisis. As Defense Minister Beatty noted, "the issue is whether there will be a Canadian presence here. . . . If you provide the territory and another country provides the goods, you become a protectorate."¹⁴

DOMESTIC POLITICAL CONTEXT

The 1987 white paper calls for the country's biggest peacetime defense improvement in history, and the government seems serious about making up for the years of neglect. Nevertheless, there are doubts about whether the sweeping plans can be paid for. No binding promises have been made to finance the improvements; future Cabinets will have to consider them as budgets are drafted. Thus, although the defense minister ordered his ministry to "proceed on the assumption" that it will have a basic budget that increases annually by 2 percent in real terms, the nature of the Canadian political system makes such guaranteed increases unlikely. Political pressures against raising defense spending are great. Prime Minister Brian Mulroney soon retreated from the campaign promises he made in 1984 to increase the defense budget significantly. Despite the popularity of "sovereignty protection" measures, such calls come at a time when funds are severely limited and when the gov-

ernment is already running huge deficits. The long-term commitment also faces certain opposition.¹⁵

Canada is a lively, pluralistic democracy in which the government must pay close attention to an active and generally well-informed public. Its parliamentary system simplifies the conduct of defense policy. Once the Cabinet adopts a policy, there are fewer obstacles to its implementation than there are in the United States. Parliament cannot thwart a policy or treaty to which the government, with a majority in the House of Commons, has firmly committed itself. Still, Canada is a bilingual federation, with an increasingly strong court system, powerful provinces, and a vocal citizenry determined to be heard on defense questions. Any government must contend with possible roadblocks.

For example, the Charter of Rights and Freedoms was adopted in 1982 as an integral part of the new constitution. In September, 1983, an anti-cruise-missile coalition successfully persuaded a federal court that it was proper to use the courts to challenge the government's decision to permit cruise missile testing in Canada. After an appeals court ruled unanimously that Ottawa's decision did not violate the charter, the coalition appeared in February, 1984, before the Supreme Court of Canada in a last-ditch effort to secure an injunction against the testing. That court ruled that there was no evidence that testing of unarmed missiles would endanger Canadians' rights to life, liberty and security. Nevertheless, it was a milestone that a court agreed to hear a case against the government's defense policy. Court action is a potentially important instrument in setting limits on Ottawa's ability to implement security policy.¹⁶

In defense, the influence of provincial governments has not become significant. Provincial leaders occasionally voice concern about the adverse economic impact of closing military installations in their provinces,

¹⁵Herbert H. Denton, "Canada's Defense Policy Sees Slow Budget Rise," *Washington Post*, June 6, 1987; Perrin Beatty, "A Defence Policy in Canada," *Canadian Defence Quarterly*, vol. 17, no. 1 (Summer, 1987), p. 12; David Leyton-Brown, "US Reaction to the Defence White Paper," *International Perspectives* (July-August, 1987), pp. 3-5; Price, "Nuclear Fleet," pp. 104-105.

¹⁶See the following articles from *Maclean's*: "Testing the Cruise," May 30, 1983, pp. 22-26; "The Cruise: All Systems Go," July 25, 1983, p. 11; "The Cruise and the Courts," October 24, 1983, p. 26; "A Judgment on the Cruise," December 12, 1983, p. 21; "Countdown for the Cruise," March 5, 1984, p. 16; and "The Cruise Flies on Schedule," March 19, 1984, p. 20. For courts, see Wayne C. Thompson, *Canada 1987* (Washington, D.C.: Stryker-Post, 1987), pp. 68-71.

¹⁷Simard and Hockin, *Independence*, p. 8. For CF-18 contract, see the following *Maclean's* articles: "Manitoba's Week of Anger," November 17, 1986, pp. 14-15; "Repairs for an Image," January 7, 1987, p. 7; "Low Marks for the Government," January 7, 1987, pp. 32-35. For provincial powers, see Thompson, *Canada*, pp. 71-81. The government wishes to tap the strong regional loyalties by reintroducing a regional command structure for forces within Canada and retaining reserve units in traditional locales. See *Challenge and Commitment*, p. 66, and "Closing the Commitment-Capability Gap," *Defence* (August, 1987), p. 456.

and compete for defense procurement contracts. For instance, in 1986, Quebec and Manitoba competed energetically for F-18 aircraft maintenance contracts, even though the latter is ruled by the New Democratic party (NDP), which is a persistent defense critic and opposes Canadian membership in both NATO and NORAD. Manitoba has even declared itself a "nuclear-free zone," as have 90 cities including Ottawa, although the value of such symbolic declarations can be regarded as almost nil.

In the end, the Defense Department chose vote-rich Quebec, in order to shore up the aerospace industry in Montreal. Alberta and Saskatchewan were not asked to grant permission for the cruise missile testing even though the missiles crossed their airspace and even though there were protests in those provinces against such testing. Defense policy in Canada is still very much a monopoly of the federal government.¹⁷

In another sense, the growing power of the provinces has been a major domestic problem. Indeed, for a quarter of a century the federal government has been preoccupied with the assertion of provincial rights, especially those of Quebec. In the late 1960's it decided to remold the military into a bilingual organization that could serve as a model for other government sectors. Because of the overriding importance of preserving Canadian unity by accommodating francophones, it was decided to risk temporarily a diminution of military efficiency. From another perspective, though, solving Canada's language problem in a way that would enable all its soldiers to work together better would improve military efficiency in the long run. Nevertheless, bilingualism remains a touchy issue in the armed forces.

To eliminate discrimination, new French Language Units (FLU's) were created, and five English-speaking regiments were disbanded. Officers hoping to advance must speak both languages, and some slots are designated as bilingual. Bilingualism came most easily in the air force. It was more difficult in the navy, in which the crews of two ships are French-speaking. The two languages were made equal in the armed forces. Thus, English was no longer the Defense Department's official language. All communications from higher headquarters have to be issued in the working language of the base or unit receiving them. Promotions were speeded up for francophones and for anglophones who could be released from duty in order to learn French. While commanders complained about such absences, many anglophones began to resent what appeared to be the degrading of the merit system and the introduction of quotas to fill more of the higher ranks with francophones.

Such "reverse discrimination" is explicitly condoned by section 15 of the constitution. Some Canadians object to this, but it is the law. The proportion of francophone officers and noncommissioned officers increased from 10.6 percent to 19.2 percent and of enlisted men from 19.1 percent to 24.9 percent between 1970 and the early 1980's. The morale and efficiency problems created by

these efforts were not lasting; but they reveal the extent to which the armed forces are affected by important needs within the society as a whole.¹⁸

Through hearings and a wide range of government contacts with unofficial groups, access to the government has been substantially increased in recent years. But the number of groups advocating disarmament and a completely nonnuclear policy has proliferated so much that it is difficult to estimate their influence. By 1985, the loosely organized "peace movement" embraced an estimated 1,000 organizations and 300,000 persons. These groups, advocating a multitude of policies, are unable to present a coherent recommendation. With so many outside voices, the government can choose which groups it will take seriously. It knows that its decisions will satisfy some Canadians and will ultimately be accepted by all Canadians. It also knows that an electoral defeat due to a defense policy issue is very unlikely. In part, the peace movement is a response to a long-standing desire in the minds of many Canadians for a more identifiably independent foreign policy and defense policy. Opposition often stems from a yearning for Canada to be able to act alone and from the suspicion that it is unable to do so because of its defense links with the United States.¹⁹

The society at large can play a role in establishing limits for government policy. The voters set broad parameters, which, for instance, prevent increases in defense spending from being paid for by cuts in social spending; they hold the government to the policy banning the deployment of nuclear weapons on Canadian soil in peacetime and require the leaders actively to support disarmament. But in the end, the government in power defines Canada's defense policy.

CONCLUSION

The 1987 white paper proclaimed that "decades of neglect must be overcome." Cooperation with the United States through NORAD remains essential, and both countries are improving their joint air defense through NWS. Canada has underscored the importance of its contribution to NATO by announcing a concentration on and strengthening of its air and land forces on the critical central front in Germany. A more dramatic decision designed to bring Canada's capabilities into line with its commitments will increase Canada's naval and air presence in the Arctic, where not only its security but its sovereignty is at stake. There are financial and

political obstacles that could prevent the full implementation of these defense measures. As Defense Minister Beatty argued,

we could meet our defense needs by having somebody else do the job. . . . It would be cheaper to do so, but the price that we pay is in our nationhood. It would be tragic if we mortgaged that.²⁰ ■

ENERGY DEVELOPMENT

(Continued from page 120)

As far as an oil shortage is concerned, Canada, the United States and the other members of the International Energy Agency (IEA) already have a long-standing commitment to share oil in times of shortage.¹³ Finally, it is unclear how the United States strategic oil reserve would enter the picture during such a shortage. Canada does not have a stockpile of oil held in reserve, but it is possible that Canada would indirectly benefit because any drawdown of the United States strategic oil reserve would decrease the oil shortage in the United States, and thereby decrease Canada's commitment through proportional sharing.

Natural gas and electricity are somewhat different, and potentially more worrisome, in that there is little international trade in these commodities. If Canada were to experience a shortage in either of these fuels, then it could not solve the problem through access to world markets. These products are not under the control of an international organization like OPEC and would not be subject to an artificially induced shortage.

Whatever shortage in natural gas and electricity were to emerge could be alleviated through normal market forces. But it might take a considerable period of time before the market forced an increase in the supply of natural gas or electricity; prices, therefore, would have to rise high enough temporarily to decrease demand in order to satisfy supply requirements. The sharing provision would most likely be called into play if there were some unexpected and significant disruption to normal supply flows, like the closing of a nuclear power plant or an interruption in the transmission of natural gas through its pipeline network.

FOREIGN OWNERSHIP

Another area in which some Canadians have argued that Canada has lost control is with respect to foreign investment in the oil and gas industry.¹⁴ As previously mentioned, a major thrust of the NEP was to increase Canadian ownership in the oil and gas industry. Several takeover acquisitions by Petro-Canada and many others

¹⁸Gerald Porter, *In Retreat. The Canadian Forces in the Trudeau Years* (Canada: Deneau and Greenberg, n.d.), pp. 18-25. For background, Thompson, *Canada*, pp. 44-53.

¹⁹John Kirton and Blair Dimock, "Domestic Access to Government in the Canadian Foreign Policy Process 1968-1982," *International Journal*, vol. 39, no. 1 (Winter, 1983), pp. 94-98; Ollivant, *How Powerful?* p. 12; Don Munton, "The Canadian Winter of Nuclear Discontent," *Current History*, May, 1984.

²⁰*Challenge and Commitment*, p. 89. "A Defence Plan for Canada," *Maclean's*, June 15, 1987, p. 19.

¹³Apparently, the final text of the Free Trade Agreement clarifies Canada's dual obligation to the United States under free trade and the other IEA countries in a shortage situation severe enough to trigger the Emergency Oil Sharing System.

¹⁴Foreign ownership is not a concern in the electrical sector because nearly all firms in this sector are provincially owned crown corporations.

by the private sector—induced by the NEP—helped to increase Canadian ownership.

Current federal government policy with respect to the infusion of foreign capital into the petroleum industry is now much less restrictive, especially for financially troubled firms. This change in attitude about foreign investment in the petroleum industry is evident from the fact that the federal government has not attempted to block the takeover of Dome Petroleum (worth about \$5.6 billion) by Amoco Canada. At present, any foreign direct investment over \$25 million must be approved by Investment Canada, the agency that replaced the Foreign Investment Review Agency (FIRA). Under the Free Trade Agreement, the foreign investment limit is to be raised over a three-year period to \$150 million, but this still gives the government a say in larger takeovers.

The Free Trade Agreement provides for a very open flow of investment between the two countries. This applies to investment in the energy industry as well as other industries. Specifically, the Free Trade Agreement says:

The Parties have agreed to provide each other's investors national treatment with respect to the establishment of new business, the acquisition of existing business, and the conduct, operation and sale of established business. More specifically, the Agreement binds the Parties not to adopt policies requiring minimum levels of equity holdings by their nationals in domestic firms controlled by investors of the other Party, or requiring forced divestiture. . . .

The Agreement provides that the Parties will not impose export, local content, local sourcing, or import substitution requirements on each other's investors. . . .

The Parties agree that all existing laws, regulations, and published policies and practices not in conformity with any of the obligations described above shall be grandfathered.

The Free Trade Agreement provides for almost unfettered flows of foreign investment. However, the grandfathering clause, along with the dollar limits placed on investments that come under review, allows Canada adequate opportunity to screen foreign investment in the petroleum industry.

The Free Trade Agreement endorses the status quo as far as energy trade is concerned, and it provides an important guarantee of future access. This is especially critical for gas and electricity exports, since they are expected to increase in the future. And favorable macroeconomic responses occur when energy exports increase. Free trade will effectively force both governments to rely on market forces to determine energy prices and trade volumes. On the other hand, proportional sharing during a shortage will constrain Canadian energy policy responses. Overall, Canada will benefit from free trade in energy. ■

CANADIAN RELATIONS WITH THE UNITED STATES

(Continued from page 100)

positive. The United States would usually approve an effort on the part of an ally to bolster its own security and

that of the alliance as a whole. In this instance, however, the United States, Japan and Canada's European allies fear that Canada is confusing sovereignty with security. Security for North America, they believe, begins on the Elbe, not on the St. Lawrence. Moreover, the "opportunity costs" for this type of expenditure are very high. Real security, security of the type that will strengthen the conventional deterrent in Europe through an enlarged Canadian presence, or security that in some way will help enhance the capacity to extend deterrence to Europe, would require a quite different commitment.¹⁶

What the United States and its allies fear most about this particular Canadian military decision is that it will commit future Canadian governments for years to a high-cost, narrowly defined program. In the future, other Canadian governments perhaps less committed to defense than the Mulroney government (and perhaps also less committed to multilateral defense) will use the high cost of "sovereignty protection" as an excuse for hollowing out the Canadian military contribution to Europe.

Notwithstanding these doubts, the United States is prepared as always to work closely with Canada in both North American and North Atlantic terms. Indeed, the benefits and the necessity of such cooperation are fully recognized in Ottawa.

Washington has made its point on behalf of the larger alliance network. Some allies have accused the United State of "going easy" on Canada. But that is a subjective judgment. What the allies must recognize is that neither the furor over the Northwest Passage nor the orientation of the 1987 defense white paper and the American response to it are signals that the United States is accepting a concept of Fortress North America.¹⁷

ACID RAIN CLEANUP

Acid rain is a silent, slow and nearly invisible problem. Therefore, the first scientific task was to determine causation. The next was to ascertain damage. And the final task has been to devise cleanup strategies. Until recently, Canada, more a recipient than a contributor to North American acid rain, fought virtually alone to establish through bilateral means the danger of acid rain. Now the United States at least admits that an acid rain problem exists and that progress toward cleanup and prevention is necessary.¹⁸ However, the United States has balked at the cost of cleanup, citing a lack of sufficient

¹⁶Charles F. Doran, "Sovereignty Does Not Equal Security," *Peace and Security*, vol. 2, no. 3 (Autumn, 1987).

¹⁷Robert E. Osgood, "Reagan's Foreign Policy as a Postwar Perspective," in Walter Goldstein, ed., *Reagan's Leadership and the Atlantic Alliance: Views from Europe and America* (Washington, D.C.: Pergamon-Brassey's International Defense Publishers, Inc., 1986); Daniel Casse, "Canada: The Empty Giant," *The National Interest*, no. 8 (Summer, 1987).

¹⁸John E. Carroll, *Environmental Diplomacy: An Examination and Prospective of Canadian-U.S. Transboundary Environmental Relations* (Ann Arbor: University of Michigan Press, 1983).

scientific research to determine the proper and most cost-effective strategies, while spending a proposed \$5 billion on additional research.

Why has progress toward dealing with this bilateral irritant been so slow? First, the technical aspects of the issue are not easy to decipher. Whether the various nitrogen oxides stemming largely from car emissions or the sulfur oxides created by so-called point sources like refineries, smelters and coal-burning electrical generators are the primary cause of tree damage and lake sterilization is still being debated in the scientific community. Pleas that the wrong theory of causation could lead to the misspending of billions of dollars of cleanup money are only partially correct.¹⁹ Messy conglomerations of nitrogen and sulfur oxides when combined with water create extremely caustic acids. Ultrafine distinctions between the chemical compositions found in the environmental setting where these acids are deposited are impossible and probably not essential. The real challenge is to reduce both nitrogen oxide and sulfur oxide emissions. Diffusion is no longer a valid approach.

Second is the matter of cost. If the cost of cleanup were minimal, there would be more room for quick solutions. But the costs of cleanup will run into billions of dollars. Coal-fired utilities in Ohio, for example, are thought to be an aggravated source of acid rain. Fitting many of these utilities with stack-scrubbers to remove the sulfur would result in many closings.²⁰ Shifting from coal as a fuel would imperil jobs in the poor, coal-mining regions of Appalachia. The bulk of the cost of cleanup is borne by Americans, not Canadians, since the prevailing winds blow north and east and since, with a population and economic base that is 10 times that of Canada, Americans produce much more acid rain.

Third, political action in the United States is blocked by regional politics. New England, which has relatively fewer congressional seats and electoral votes and is the target of much acid rain, wants action, while the American midwest, with proportionately more seats and more votes, faces the burden of paying for the cleanup, and thus slows action. A formula that spreads out the cost and speeds up action has been proposed by past Democratic party presidential candidates like Walter Mondale and John Glenn. But no candidate has made acid rain an

issue in the 1988 campaign, which indicates something about the politics of the issue in the United States.

Fourth, the priorities of environmentally conscious Americans are not helpful.²¹ Toxic dumps are highly visible and genuinely worrisome because of the impact on drinking water (yet it should be noted that many Canadian cities get drinking water from lakes now polluted by acid rain). Thus, the United States Congress receives much more mail on toxic dump cleanup than on acid rain prevention. As a consequence, Congress is prepared to spend more than can perhaps be absorbed on toxic dump elimination, and less than is needed to cope with acid rain.

Fifth, Canada has not always been a beacon on acid rain problems. Despite the low concentration of these facilities, coal-fired utilities in Canada are not now required to use stack-scrubbers. Emission requirements on automobiles are less demanding in Canada than in the United States. Thus, Americans find a ready target in some Canadian environmental practices.

In sum, the acid rain negotiations (burdened by the Michael Deaver episode over illegal lobbying tactics on behalf of acid rain cleanup and by the recent relaxation of air quality standards for major American cities) are not moving forward with any dispatch. The acid rain problem is worsening; Canada is restive about apparent American indifference; and the bilateral agenda is likely to see environmental protection high on the list of irritants for years to come.

Canada and the United States are too important to each other for either to take the other for-granted.²² Yet experience shows that each tends to assume too much and to know too little about the other. In the last 15 years, a whole new academic field known as Canadian studies has emerged in the United States. Composed of college and university professors from across America, the Association for Canadian Studies in the United States, for example, now has over 1,300 members.²³ Such attention to Canada is bound to have a positive long-term impact on the interaction between these two great democracies, an interaction known in some circles, significantly, as "the relationship." ■

THE CANADIAN POLITICAL SCENE

(Continued from page 112)

approval for a new and updated constitutional framework failed, mostly because of Quebec's objection that its own distinctive requirements were not being adequately addressed. The 1981 constitutional rearrangement, which became effective in 1982, was only a partial remodeling, and was imposed in the face of Quebec's demurral. Meech Lake strives to end Quebec's isolation. In fact, it does so by explicitly acknowledging and making constitutional Quebec's status as a "distinct society" within Canada.

Its various decentralizing clauses are attractive to Quebec, but they also appeal to other provinces. They

¹⁹Carl Beigie and Alfred O. Hero Jr., *Natural Resources in U.S.-Canadian Relations*, vols. 1 and 2 (Boulder: Westview Press, 1980).

²⁰Richard E. Balzhiser and Kurt E. Yeager, "Coal-fired Power Plants for the Future," *Scientific American*, vol. 257, no. 3 (September, 1987).

²¹Lester B. Lave and Eugene P. Seskin, "Air Pollution and Human Health," in Robert Dorfman and Nancy S. Dorfman, eds., *Economics of the Environment* (New York: W. W. Norton & Co., 1972).

²²John W. Holmes, *Life with Uncle: The Canadian-American Relationship* (Toronto: University of Toronto Press, 1982).

²³The Association for Canadian Studies in the United States (ACSUS), *Membership Directory 1986-1987* (Washington, D.C.: ACSUS, 1987).

are appealing in their own right because, apart from its proposed "distinct society" classification, Quebec is not awarded privileges different from or better than their own. Under Meech Lake's provisions, with compensation from Ottawa, provinces will be able to opt out of shared-cost programs as long as they conform to "national objectives," and will have a more conspicuous role in determining the kinds of migrants they will receive from abroad. They will have input regarding the nomination of Senators and Supreme Court judges. And, on basic matters, no future constitutional amendment will be possible without universal provincial consent.

Response to Meech Lake from principal political quarters has been uncommonly favorable. All provinces plus the federal government stand in agreement; Quebec's legislature was the first to ratify the accord. The initial response in the House of Commons was a thumping majority in favor, with support from all major parties. While expressing some reservations about the agreement's features, Turner and Broadbent and their respective parties calculated that they could not suffer the political opprobrium of rubbishing a bargain backed by all provinces, and by Quebec in particular, where both opposition parties are savoring the prospect of major support in the next federal election. Doing well in Quebec is especially appealing to an electorally resurgent NDP. The party has never elected a member from Quebec, perceives opportunity for a breakthrough there, and is therefore willing to mute its conventional preference for a strong, socioeconomically capable federal government. Parenthetically, opposition party endorsement of Meech Lake, in effect an endorsement of a successful Mulroney government initiative, may have caused the opposition parties to redouble their efforts to attack the PC over free trade, an issue on which they think they can earn much political capital.

However, Meech Lake has not kindled great enthusiasm among all Canadians. Some critics are disturbed that Meech Lake's generosity toward Quebec, investing it with "distinct society" status, may backfire. It could become the touchstone of a boisterous, implacable nationalist sentiment, rather than being therapeutically calming and healing. In addition, despite assurances that the terms of the Charter of Rights are unaffected, other objectors fear that the designation conferred on Quebec as a distinct society could dilute the equality and proper treatment claims of women, natives and other groups.

Meech Lake has also raised concerns that an already decentralized and fractious Canada cannot withstand further devolution without losing its coherence as a nation. Hostage to provincial whim, social and economic programs would no longer be recognizably Canadian. Pierre Trudeau caused a minor sensation when he pub-

licly damned the accord: "Those Canadians who fought for a single Canada, bilingual and multicultural, can say goodbye to their dream." If Meech Lake became fact, he believes, it would quite simply legitimize balkanization, leaving government in Ottawa to the "totally impotent," in effect, to "eunuchs."⁴

Public reception of Meech Lake has been fairly predictable. Most Canadians approve of the accord in general, and opinion in Quebec is especially supportive. Most Canadians in principle prefer a government in Ottawa that can lead from strength. Yet, reflecting an ambivalence typical of the national mood, the public favors the kind of devolutionary orientations that Meech Lake inscribes.

The actual impact of a Meech Lake agreement that becomes the law of the land is a matter of speculation. Northrop Frye's allusion to Canadians thinking of themselves as "citizens of a country of uncertain identity, a confusing past and a hazardous future" may well lie beyond political or institutional tinkering.⁵ But it is worth noting that Meech Lake's proponents turn criticisms around, averring that even if efficiency and program coordination suffer, the collective will of Canada may rise—eventually coming full circle to enhance the legitimacy, and therefore the authority, of the Canadian government.

CONCLUSION

What remains to be underscored in this survey of Canadian politics is that the Mulroney years have produced more than their share of seeming contradictions and ironies. The government's original public support has collapsed. The Prime Minister and his party are jeered at, mistrusted and regularly accused of mismanagement. Yet his administration has seen a period of relative economic buoyancy and is not without serious rethinking of conventional wisdom or without its share of reforms. Even if Mulroney and the Conservative party are unceremoniously cast out at the next election, their legacy will include two dramatic and fundamental efforts to align Canada's future—free trade and constitutional change. For good or ill, if either or both of these initiatives founder, the opportunities for their revival are slim indeed. ■

CANADIAN ECONOMY

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Section 92A, in the Constitution Act in 1982. It gave the provinces exclusive power to make laws in relation to nonrenewable resources, forestry resources and electrical energy.⁷

At the same time, the cultural revolution in Quebec was being translated into a crisis of the constitution by the Parti Québécois, which came to power in Quebec under René Lévesque in November, 1976. The 10 years of politics that followed were probably most dramatic in

⁴Trudeau, article in *Toronto Star*, May 27, 1987.

⁵Northrop Frye, article in *Toronto Star*, June 28, 1980, cited and commented on in Andrew H. Malcolm, *The Canadians* (Markham, Ont.: Fitzhenry and Whiteside, 1985), p. 58.

⁷*Ibid.*, pp. 33-34 and 60.

Quebec, but there were marked changes, some might even say chaos, in the political scene elsewhere in Canada. There was conflict within political parties, as well as between political parties. The period as a whole represents prolonged uncertainty about the stance of policy that has been used traditionally to influence the pattern of industrial development in the country.

In an attempt to resolve some of the outstanding issues in its trading relations with the United States at the end of the Tokyo Round of the GATT negotiations, Canada initiated bilateral trade negotiations with the United States early in 1986. An agreement was initialed by the two countries in October, 1987, and negotiations over the text of the agreement were completed two months later, in December.

Following closely the principles of the GATT, the agreement contains a framework for trade with the United States that promotes the pattern of industrial development in Canada that has evolved over the past 15 years. There is freer access to American markets for goods manufactured in Ontario and Quebec. There is more certainty future American markets for meat, metals and minerals from western Canada. There are the prospects of relatively easy access to American markets for new manufactures produced as the western Canadian economy becomes more diversified, and as the range of manufactures becomes broader elsewhere in Canada. There are prospects that a wider range of financial and investment services will be available to Canadians.

From all these changes has come a broader view of industrial development in Canada. Opinion has shifted from the view that the role of public policy is to provide incentives for economic development in the "have-not" provinces, to the view that it should also be used to encourage the diversification of economic activity in the natural-resource-based provincial economies, where instability created by dramatic changes in the international markets for Canadian products generates wide variations in economic activity.

Canadians have clarified their approach to the way in which economic development in the economy is to be defined; they now go through extensive federal-provincial government consultations when programs supported by public policies are chosen. Canadians use cooperative federalism at the political level to define the way in which industrial development is to be encouraged by public policy. At the level of economics, decisions are more clearly made in an "economic community," an environment in which the lead economic decision-makers are provincial and for which there is a common commercial policy, a common currency and, therefore, fixed exchange rates, a common monetary policy and coordinated fiscal policy.

The industrial development of the Canadian economy over the past 15 years has been the result of a series of dramatic political and economic events in the interna-

tional community and at home. The environment for economic decision-making is different now; the opportunities for industrial development have changed. Saskatchewan farmers share their place with manufacturers in the province, and those in business and financial services in Ontario keep careful watch on developments in the west. The economy is more clearly divided on provincial lines across the country, than it has ever been before. Economic development is defined to suit the provinces, and economic policy is developed with the expressed interests of each of the provinces in mind. ■

CANADA'S NEW INTERNATIONALISM

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maintained in considerable doubt. Its investment in building a new internationalism within the wider global community had been clearly focused, far-reaching, and close to realization. But so were its efforts to build a closer economic relationship with the United States.

As the Canadian government began the difficult task of securing Canadian and American ratification and implementation of the bilateral trade agreement it had concluded with the United States on December 10, 1987, the question facing Canadians was clear. Since the establishment of Canada in 1763, the issue had been whether North Americanism or globalism would prevail as the defining principle of Canadian foreign policy. But the answer could be delivered only if the governments of Canada and the United States tried to secure acceptance of their newly negotiated trade deal. The deal and the trade policy actions that surround it may represent the last major step into a fortress North America—a major assault on the internationalist principles that the Mulroney government has forwarded to considerable acclaim at home and abroad. On the other hand, the deal may constitute the first step in a rapid, visible, far-reaching effort toward a multilateral trade liberalization. In that case, Canada's traditional internationalist principles and Brian Mulroney's innovative extensions of them would remain intact at home and would be closer to realization abroad. ■

AGRICULTURE IN CANADA

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icies can be sought. Canada is trying to play a leading role in these attempts to rationalize international agricultural policy.

Canada and the United States have recently concluded a series of trade negotiations. On January 2, 1988, the resulting bilateral trade agreement was signed by the leaders of both nations. This free trade agreement is of more importance to cross-border trade in industrial products and services than to agricultural trade, but it is likely to encourage freer trade in farm products between the two nations. The major beneficial impacts on United States producers may be the increased export of fruits

and vegetables to Canada; Canadian producers anticipate fewer restrictions on exports of red meat to the United States.

LAND AND WATER ISSUES

Canadian agriculture faces several land, water and environmental problems. The deterioration of soil quality in many parts of the nation, especially the prairie region, is the most serious land use problem. The main features of decreasing soil quality in western Canada include the progressive loss of inherent fertility; between 30 percent and 35 percent of the original organic matter of prairie soils has been depleted; there is an associated deterioration in soil tilth with consequent greater susceptibility to wind and water erosion. The increase in dryland soil salinity and the question of soil acidification, particularly in the Peace River region, are also of concern.

Many of these soil problems, excluding acidification, are considered to be partly the result of the practice of summer fallowing. Roughly one-fourth of the cropped acreage in the prairie region is currently fallowed. This time-honored practice of periodically leaving a portion of land uncropped was regarded as an important technological breakthrough in the settlement of the prairie region in the early 1900's. However, summer fallowing is now regarded by most agrologists as a physically inefficient means of water conservation, except perhaps in the most arid zones of the prairies. Unlike the United States, Canada does not have a conservation reserve program for marginal lands. The Prairie Farm Rehabilitation Administration, an agency originally created in 1937 to deal with the soil, water and farm problems of the "dirty thirties," is currently studying whether some 10 percent of the cultivated land base in the prairie region, largely in the historically "inhospitable" triangle, might be converted to vegetative cover.

As yet, there is no clear picture of how seriously soil quality problems are affecting yields, gross returns and net incomes in agriculture. There has been a tendency to exaggerate the adverse impacts that these problems may have on the productive capacity of agriculture in the near term. Nevertheless, most observers agree that more attention must be given to water and soil conservation and to the development of agricultural production systems that are ecologically sustainable in the long run.

Water issues range from those associated with irrigation to the question of making better use of moisture and snow resources in dryland agriculture. The agricultural sector is the largest consumer of water in Canada (some 48 percent) and yet, paradoxically, irrigated agriculture is not a large component of the overall agricultural sector. Most irrigation is concentrated in western Canada, chiefly in Alberta. Unlike water use in the United States, irrigation from ground water sources is very minor, and Canada has fewer problems associated with ground water depletion and fewer apparent concerns with ground water contamination, except in southern On-

tario. Public policy for irrigated agriculture in western Canada should place less priority on the expansion of existing irrigation systems and more priority on making better use of the systems in place. Rather than being preoccupied with increasing water supplies through further dams and diversions, water management policy in Canada should be increasingly directed to demand management alternatives, including the introduction of explicit pricing for water, the formulation of improved nonprice rationing schemes in years of low river flows and the reform of provincial systems of water rights.

CONCLUSION

Canadian agriculture faces many challenges in the remaining years of this century. From the 1940's to the early 1980's, the agricultural sector adjusted under the pressure of major mechanical and biochemical innovation. Recently, many farm producers in Canada have had to cope with the pressures of lagging markets, particularly for grains, and the accompanying financial stress. Governments in Canada have reacted with considerable temporary financial assistance to tide farmers over until international markets rebound and massive agricultural subsidies in many rich nations—particularly in Japan, Europe and the United States—can be at least partially dismantled.

There is, however, a very real danger that Canada, too, will be trapped in ever more substantial and permanent support of the farm sector. How to help farm families in actual need and yet restructure the agricultural sector so that it will be efficient and competitive in the years ahead is the policy dilemma of our time. ■

BOOK REVIEWS

(Continued from page 126)

QUEBEC AND CANADA, PAST, PRESENT AND FUTURE. By John Fitzmaurice. (New York: St. Martin's Press, 1985. 343 pages and index, \$37.50.)

According to the author, it must be understood that, since 1763, Quebec has been a vital factor in Canada's political battles. Quebec has one-fourth of the Canadian population and splits the country's English-speaking provinces geographically; thus its different characteristics and interests are important elements in Canada's contending political and economic forces, and "the key question which still dominates Quebec politics today is her relationship with the rest of Canada."

John Fitzmaurice offers a historical survey of Quebec, its politics, peoples and culture; he details the economic and social changes and the liberation and national movements and their outcomes, and he offers some guideposts to the future. The author seems to feel that although the road is "long and stony . . . a new era is opening, with many interesting opportunities" for Quebec, although the evolution of its politics is still unclear.

O.E.S.

BUILDING A CANADIAN-AMERICAN FREE TRADE AREA. Edited by Edward R. Fried, Frank Stone and Philip H. Trezise. (Washington, D.C.: The Brookings Institution, 1987. 218 pages, summary, \$10.95, paper.)

Building a Canadian-American Free Trade Area is a volume in the Brookings Dialogues in Public Policy series and is published with the cooperation of Canada's Institute for Research on Public Policy. This volume presents a series of papers that were delivered at a conference at the Brookings Institution. Among the topics covered were the politics and economics of free trade; restrictions on free trade and market access security; investment and trade considerations; agricultural trade prospects; and the official views of both governments.

The book also contains sections that annotate the general discussions held after the presentation of each topic area; a list of conference participants is included in conclusion to help identify the participants in these discussions. *Building a Canadian-American Free Trade Area* presents balanced coverage of the issues by assigning experts from both Canada and the United States to address each area of concern. R.S.B.

MISCELLANEOUS

THE EUROPA YEAR BOOK 1987: A WORLD SURVEY. 2 vols. (London: Europa Publications Limited, 1987. 3,225 pages, list of abbreviations, index of international organizations and index of territories, \$265.00.)

The Europa Year Book, distributed in the United States by the Gale Research Company, is a massive two-volume reference work that has justifiably gained the reputation as the "definitive" and "comprehensive" source for data on every nation of the world and various international organizations. The new format is entirely alphabetical. Readers who deal with world affairs on a frequent basis will find this work indispensable. R.S.B. ■

SOVEREIGNTY AND NATIONALISM

(Continued from page 125)

lish-speaking provinces and the federal government to alter its unique cultural heritage, despite the fact that the BNA Act protected traditional French rights (language, education and law) in Quebec.² In postwar Quebec most businesses were still controlled by anglophones. But when industrialization and urbanization intensified in Quebec, many Quebecois felt that their society and their economy needed protection from the threat of domination by outsiders, including anglophone Canadians.

In 1960, Jean Lesage became premier of the province when his Quebec Liberal party won control of the government from the conservative Union Nationale party.

²Peter T. Sherrill, "Separatism and Quebec," *Current History*, November, 1980, p. 134.

Lesage initiated social and economic reforms that were labeled the "quiet revolution"; these programs were designed to shake Quebec out of its conservative doldrums.

The quiet revolution sought to promote secularism, especially in the area of education, which had previously been under the control of the Roman Catholic church. The goal of this movement was not to undermine the unique nature of society in Quebec, but to preserve the sovereignty of Quebec by creating a new middle class that could compete on equal footing with anglophone Canadians and Americans in the arenas of politics and business. The Liberals, in effect, saw such a program as the only guarantee that they would remain "masters in their own house." They also sought to increase francophone economic influence by forming state economic enterprises like Hydro-Quebec. This firm became the province's largest employer and only French was spoken as the language of business.

Many Quebecois were not satisfied with the pace or the direction of these changes. Some sought an extended role for Quebec in the system of federal government, while others believed that Quebec should secede from Canada to form an independent state. Extremist separatist groups were formed during the 1960's. Some, like the Front for the Liberation of Quebec (FLQ), advocated violence to achieve their goals. The FLQ's policy of violence culminated in 1970 with the kidnapping and murder of Pierre Laporte, Quebec's minister of labor and immigration. The federal government did not hesitate to intervene during this crisis. Canadian Prime Minister Pierre Elliott Trudeau, himself a native of Quebec, banned the FLQ and imposed emergency powers from October, 1970, to April, 1971, under the Wartime Measures Act.

After losing power in 1966 to the Union Nationale, the Liberals regained leadership of the government of Quebec under Premier Robert Bourassa in 1970. During the period of Liberal control from 1970 to 1976, the Liberals advocated the policies of the quiet revolution, but refrained from pressing for more influence within the structure of the federal government. Popular dissatisfaction with the Liberals and some support for separatism helped lead to the defeat of Bourassa in 1976 by René Lévesque and his Parti Québécois (PQ).

The ascent of the PQ to power in Quebec stunned Canada, because Lévesque was open about the desire of the party to press for the separation of Quebec from the confederation. Lévesque, who had been a minister in the Cabinet of Jean Lesage, had left the Liberal party in 1967 and founded his own pro-sovereignty party, which had merged with two other parties to form the Parti Québécois in 1968. Initially, the PQ had few supporters, but by 1973 it had managed to gain 30 percent of the vote in provincial elections. By 1976, it had become the main opposition to the Liberal party in Quebec.

Its 1976 campaign condemned the Liberals for alleged mismanagement of government and for the high rate of

unemployment and the labor unrest in Quebec. While endorsing separatism, Lévesque promised that Quebec would not leave the confederation without a provincial referendum. Indeed, in a poll taken shortly after the election, only 11 percent of the populace was in favor of separation.³

On assuming office, the PQ initiated legislative reforms that included Bill 101, which declared that French was the official language of business, government and education in Quebec. (Subsequently, sections of this law were invalidated by the Canadian Supreme Court.) By 1978, Lévesque was testing the waters for a referendum on "sovereignty-association." Sovereignty-association was a modified monetary and customs union concept that would have made Quebec politically independent from but economically linked to Canada.

The final referendum, presented to the voters of Quebec on May 20, 1980, read as follows:

The Government of Quebec has made public its proposal to negotiate a new agreement with the rest of Canada based on the equality of nations.

This agreement would enable Quebec to acquire the exclusive power to make its laws, levy its taxes and establish relations abroad—in other words, sovereignty—and at the same time to maintain with Canada an economic association including a common currency.

No change in political status resulting from these negotiations will be effected without approval by the people through another referendum.

On these terms, do you agree to give the Government of Quebec the mandate to negotiate the proposed agreement between Quebec and Canada?⁴

In the vote, in which 84 percent of the electorate participated, 59 percent rejected the referendum. The 1980 referendum defeat marked the beginning of the decline of the Parti Québécois. Although the PQ won a majority in the 1981 provincial elections, its membership declined steadily from the record membership of 300,000 in 1982 to its 1987 level of 110,000.⁵ René Lévesque generated further dissent in the province when he refused to sign the Constitution Act in 1983; furthermore, Lévesque caused an interparty split in November, 1984, when he announced that sovereignty would not be an issue in the 1985 elections. He resigned from the party in June, 1985, and the PQ lost their provincial majority to the Liberals, once again led by Robert Bourassa, in the December, 1985, elections.

THE CONSTITUTION ACT

Before the 1980 Quebec referendum, Canada's Liberal Prime Minister, Pierre Elliott Trudeau, launched a campaign to patriate the constitution, partly as a coun-

terbalance to Quebec's separatist ambitions, but also as a response to the continuing conflict between the federal government and the provincial governments over the amendment process.

As Canada's basic constitution, the BNA Act of 1867 had been amended by statutes since confederation to achieve specific goals (for example, to admit Newfoundland as a province in 1949 and to enact laws like the War Measures Act). Since the BNA Act was vague about the specific rights of the central and provincial governments, Canada's Supreme Court arbitrated disputes. Plans for constitutional reform had always failed because the parties involved—the federal government and the individual provinces—were never able to reach a consensus on the details of the amendment process.⁶

The catalyst for the successful resolution of the amendment question and the patriation of the constitution was the growth of a national Canadian identity. With the growth of Canadian nationalism after World War II, patriation was viewed by the public as an issue of national pride and sovereignty. Trudeau made constitutional reform an integral part of the Liberal party's platform during the election campaign of February, 1980, when he defeated Progressive Conservative (PC) Prime Minister Joe Clark, who had briefly led the PC's to power in May, 1979.

In October, 1980, the federal government announced that it was placing a unilateral constitution-reform proposal before Parliament. Eight of the ten provinces quickly brought suit in the Supreme Court, which ruled in September, 1981, that the federal government was acting within its powers and that the provinces did not have a veto in this process. The court ruling combined with public pressure to force both sides to reach a compromise. An amended resolution cleared Parliament in December, 1981, despite the political machinations of Quebec's premier, René Lévesque. The British Parliament returned the Canada Act to the Canadian Parliament in March, 1982; this action ended British control of the Canadian constitution and allowed Canada to proclaim the Constitution Act of 1982.

The Constitution Act gave the federal government the right to amend the constitution and included a Charter of Rights and Freedoms, which formalized a list of fundamental civil rights. The act also gave the provincial governments a considerable voice in the amendment process.

In effect, the Constitution Act legitimized the division of power between the federal government and the provincial governments. René Lévesque refused to sign the act for Quebec, and Quebec claimed the right to veto its provisions (a claim later invalidated by the Supreme Court). But after the change of administration in Quebec, Premier Bourassa indicated that Quebec would approve the constitution. And in May, 1987, Quebec reached an agreement with the federal government and the other provinces to sign the act.

³Kenneth M. Glazier, "Separatism and Quebec," *Current History*, April, 1977, p. 154.

⁴*Canada Today*, vol. 11, no. 4 (April, 1980), p. 2.

⁵Thompson, *Canada*, p. 52.

⁶Stuart J. Langford, *The Law of Your Land* (Toronto: CBC Enterprises, 1982), p. 22.

ECONOMIC NATIONALISM

When Quebec separatism and constitutional reform faded as major issues in the 1980's, economic nationalism rose to the forefront of the political agenda. Economic nationalism has been a fundamental element of Canadian politics since the 1960's. A series of government studies in the late 1960's and the early 1970's revealed that foreigners owned 58 percent of Canada's manufacturing assets; United States interests, moreover, owned 44 percent of Canadian assets and controlled over one-half of Canada's natural resource sector.⁷

In 1974, the Foreign Investment Review Act (FIRA) was implemented, to screen foreign investments and foreign corporate takeovers of Canadian companies in order to ensure that such actions were "beneficial to Canada."⁸ The FIRA and its extensive review process helped reduce the foreign control of Canadian corporate assets from 57 percent in 1971 to 16 percent in 1981.

The National Energy Policy (NEP), which was introduced in 1981, was designed to allow Canadians to control their own energy resources. The NEP was a popular program because it promoted nationalism, and it became associated with the Liberal government of Pierre Elliott Trudeau. However, the NEP scared foreign investors. As oil and natural gas prices declined in the 1980's, the government-owned Petro-Canada and private Canadian corporations bore the brunt of the economic burden, which increased with the rise of unemployment and the onset of Canada's worst economic recession in 50 years.

When the Progressive Conservatives and Brian Mulroney came to power after the federal elections of 1984, the NEP and the FIRA were dismantled. The PC's had been public in their opposition to these policies even when the policies were popular; the subsequent election victory of the PC was a public repudiation of the Liberal party's nationalist economic policies.

Mulroney renamed the FIRA "Investment Canada" and changed its fundamental function to one of soliciting foreign investment. In 1985, Mulroney signed the Atlantic accord and the Pacific accord, which deregulated the oil industry in Newfoundland and in British Columbia, Alberta and Saskatchewan. These agreements precipitated a general deregulation of Canada's oil and natural gas markets and marked the end of the NEP.

The current barometer of the status of economic nationalism in Canada is the proposed Canadian-United States free trade agreement. The idea of a free trade agreement with the United States has lurked in the back-

ground of Canadian politics since the administration of Prime Minister John Macdonald in the 1870's. Brian Mulroney's Progressive Conservative government opened the latest round of talks with the United States in September, 1985.⁹

The different interpretations of economic nationalism are at the heart of the free trade controversy. In 1988, one-fourth of Canada's gross national product (GNP) is dedicated to foreign trade, and approximately 75 percent of Canada's export and import trade is with the United States. The opponents of the free trade agreement, mainly the Liberal party and the labor unions, point to Canada's increasing dependence on the unstable United States economy as the greatest threat yet to Canada's sovereignty. The Conservative party and the business community, however, believe that free trade is a necessary precondition for Canada's economic recovery from the recession of the early 1980's and that a healthy economy is the best guarantee of national sovereignty.

The free trade debate is only the latest chapter in a continuing drama in Canadian history: the struggle among Canadians to protect what they feel is their identity, be it provincial or national. The threat of Quebec separatism has faded; the main proponent of separatism, the Parti Québécois, has lost power and René Lévesque, the man whose charisma and personality meant much to the PQ, died in November, 1987. With the effective demise of Quebec separatism and the successful patriation of the constitution, many Canadians feel that the question of provincial sovereignty is now settled. The current struggle in Canada involves the perceived threat to national sovereignty posed by the potential subversion of the economy through the terms and conditions of the free trade agreement.

It is interesting that the philosophy behind the Conservative push for bilateral trade and for an increased international role for Canada is similar to the ideology of Quebec's quiet revolution in the 1960's. In the quiet revolution, the Lesage administration recognized that in order to protect Quebec from cultural corruption, it was necessary to compete successfully in the same areas (business and politics) in which outsiders have always excelled.

Mulroney and the Conservatives have taken this view one step further; today, they believe that Canada needs a strong international economy and foreign policy to preserve its national identity. Whether the free trade agreement will be advantageous or detrimental remains to be seen. But the contest over bilateral trade will be intense; Canadians have established a tradition of fighting long and hard to maintain provincial and national sovereignty. The latest sovereignty question—the free trade agreement—is just another phase in the growth of nationalism in Canada, a country that in the twentieth century has been transformed from an isolationist and agricultural society into an international political and economic power. ■

⁷Thompson, *Canada*, p. 107.

⁸Alrick Huebener and Hoyt Gimlin, *Canada's Political Conflict*, Editorial Research Reports, vol. 2, no. 23 (Washington, D.C.: Congressional Quarterly Inc., December, 1981), p. 979.

⁹The far-ranging economic, political and social impact of the final agreement, which was reached in December, 1987, is documented extensively throughout the March, 1988, issue of *Current History*.

THE MONTH IN REVIEW

A Current History chronology covering the most important events of January, 1988, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Arab League

(See *U.S., Foreign Policy*)

Central American Peace Plan

(See also *El Salvador; Nicaragua; U.S., Foreign Policy*)

Jan. 13—Costa Rica's President Oscar Arias Sánchez gives Nicaraguan contra leaders living in Costa Rica an ultimatum: resign from the contra movement or leave Costa Rica; President Arias also sends a letter to Nicaraguan President Daniel Ortega Saavedra criticizing President Ortega's lack of compliance with the provisions of the Central American peace treaty.

Jan. 16—The Presidents of Costa Rica, Honduras, Nicaragua, El Salvador and Guatemala meet in San José, Costa Rica, for negotiations about and evaluations of the peace plan.

Jan. 17—The leaders of the 5 Central American peace plan nations conclude their 2-day summit meeting in Costa Rica. Nicaraguan President Daniel Ortega Saavedra promises to conduct direct cease-fire negotiations with the contras and to lift the state of emergency declared in Nicaragua in 1982.

Jan. 19—The contras agree to hold cease-fire talks with the Nicaraguan government; the talks will begin in the last week of January.

Jan. 21—The Nicaraguan government offers to set up an international commission, including representatives of the UN, the OAS (Organization of American States), the Socialist International and U.S. Republican and Democratic members of Congress, to monitor Nicaragua's compliance with the terms of the peace plan and its guarantee of full political rights for the contras; in return, the contras are expected to lay down their arms.

Jan. 28—Nicaraguan and contra officials meet for their first face-to-face negotiation session in San José, Costa Rica.

Jan. 29—The Sandinistas and the contras end 2 days of talks and decide to convene again in 2 weeks.

International Monetary Fund (IMF)

Jan. 18—The World Bank issues its annual report, which says that 3d world countries have curtailed investment and economic growth since 1982 with worsened living standards as a result; the report concludes that the future prospects of these countries are poor since they now owe some \$1.190 trillion in debts, and progress toward development has stalled.

Iran-Iraq War

Jan. 1—Iraq reports raids by its warplanes against 2 tankers off the Iranian coast.

Lloyd's Shipping Intelligence Unit says that there were 34 confirmed attacks on commercial shipping in the Persian Gulf in December, 1987, by Iran and Iraq, bringing the total to 178 for the year.

Jan. 9—Iraq and Iran report a naval battle between their forces in the northern Persian Gulf; Iran shells the Iraqi city of Basra in southern Iraq, killing 8 civilians and wounding 27 others.

Organization of American States

(See *Intl, Central American Peace Plan*)

United Nations (UN)

(See also *Intl, Central American Peace Plan; Israel; U.S., Foreign Policy*)

Jan. 5—The Security Council unanimously calls on Israel not to deport 9 Palestinians involved in recent disturbances in the Israeli-occupied territories of the Gaza Strip and the West Bank; the U.S. votes in favor of the resolution.

Jan. 14—The Security Council, with the U.S. abstaining, votes unanimously to adopt a second resolution, asking Israel to halt the deportation of Palestinians from its occupied territories.

AFGHANISTAN

(See also *U.S.S.R.; U.S., Foreign Policy*)

Jan. 4—Afghanistan's Revolutionary Court sentences a French photojournalist to 10 years in prison; the court rules that the journalist was guilty of espionage.

ARGENTINA

Jan. 17—Lieutenant Colonel Aldo Rico, who attempted a rebellion against the government in April, 1987, and 100 of his followers seize control of a military complex at Monte Caseros. Lieutenant Colonel Rico escaped from military custody on January 15.

Jan. 18—Lieutenant Colonel Rico and his supporters surrender after 2,000 government troops storm the base at Monte Caseros. The government reports that 5 other recent uprisings have been put down without resistance.

AUSTRIA

(See *Vatican*)

BANGLADESH

Jan. 25—The government prohibits public rallies and protests after a violent conflict between police and demonstrators on January 24 in Chittagong; opposition party spokesmen claim that 17 people died when police fired on the demonstrators, while the government says that 8 people died in the violence.

CAMBODIA

(See *China*)

CANADA

(See also *U.S., Foreign Policy*)

Jan. 2—Prime Minister Brian Mulroney and U.S. President Ronald Reagan sign a final version of the free trade agreement reached in November, 1987; the agreement must still be approved, however, by the Canadian Parliament and the U.S. Congress.

Jan. 28—The Supreme Court rules 5 to 2 that a law restricting abortion is unconstitutional and interferes with a woman's right to control her own body.

CHINA

Jan. 10—In an interview with a Chinese magazine, Soviet General Secretary Mikhail Gorbachev suggests that the Soviet Union and China should hold a summit meeting; this would be the 1st Sino-Soviet summit since 1969.

Jan. 12—The Foreign Ministry says that China will not consider a summit with the Soviet Union until Soviet-sponsored Vietnamese forces withdraw from Cambodia.

Jan. 14—General Secretary Zhao Ziyang pays official tribute to the late Taiwanese leader Chiang Ching-kuo as a proponent of the "reunification of the country." General Secretary Zhao asks the new leadership in Taiwan to open discussions with China.

COLOMBIA

Jan. 25—Attorney General Carlos Hoyos is killed by drug traffickers in Medellín; Attorney General Hoyos had been active in attempting to prevent the smuggling of drugs from Colombia to the U.S.

Jan. 27—President Virgilio Barco Vargas announces a series of emergency measures, including the mobilization of the army, to combat antigovernment guerrillas and drug traffickers.

COSTA RICA

(See also *Intl, Central American Peace Plan; Nicaragua*)

Jan. 13—President Oscar Arias Sánchez orders 3 Nicaraguan contra leaders to leave Costa Rica if the leaders do not stop subversive activities against the Sandinista government of Nicaragua.

DOMINICAN REPUBLIC

(See *Panama*)

EGYPT

(See also *U.S., Foreign Policy*)

Jan. 24—The government of Egypt says that it will resume diplomatic relations with Tunisia after a 9-year lapse.

EL SALVADOR

(See also *Intl, Central American Peace Plan; U.S., Foreign Policy*)

Jan. 8—A judge turns down the amnesty appeal of 5 Salvadoran national guardsmen who were convicted in 1984 of the 1980 murder of 3 nuns and a lay worker from the United States.

Jan. 26—A military court says that 3 suspects in the 1985 murder of 6 U.S. citizens should be given amnesty under the provisions of the Central American peace plan.

FRANCE

(See also *Afghanistan; Germany, East; Germany, West; U.S., Administration*)

Jan. 13—Prime Minister Jacques Chirac rescinds the December 8 expulsion from France of 15 members of a group opposed to Iran's Ayatollah Ruhollah Khomeini; in response to Prime Minister Chirac's action, several militants in France and Gabon, who have been on a hunger strike since the expulsion, agree to end their protest.

Jan. 16—Prime Minister Chirac formally announces his candidacy for the presidency; elections are scheduled for spring, 1988.

Jan. 22—In Paris, President François Mitterrand and West German Chancellor Helmut Kohl announce the formation of a joint French-West German military council and a joint 4,200-member brigade. The 2 nations also agree to convene a new economic and financial council.

GABON

(See *France*)

GERMANY, EAST

Jan. 10—General Secretary Erich Honecker ends a 3-day visit to France.

GERMANY, WEST

(See also *France; U.S., Economy*)

Jan. 4—West German diplomat Siegfried Wielspütz is assassinated by several assailants in Paris; French police say the alleged assassins are probably members of a group of Kurdish radicals.

Jan. 5—The trial of accused kidnapper Abbas Ali Hamadei begins in Dusseldorf.

Liberation of Kurdistan, a Kurdish separatist group, claims that it killed Siegfried Wielspütz and is also responsible for the recent crash of a West German passenger plane that killed 16 people.

Jan. 11—Authorities arrest Christine Gabriele Endrigkeit in connection with the 1986 bombing of a West German discotheque where 2 U.S. servicemen and a Turkish woman were killed.

GUATEMALA

(See *Intl, Central American Peace Plan; U.S., Foreign Policy*)

HAITI

Jan. 4—A coalition of 50 religious, student, labor and political groups announce their intention to boycott this month's presidential election.

Jan. 5—The 4 leading candidates in the January 17 presidential election say they will boycott the contest.

Jan. 9—The national election council disqualifies 8 of the 9 presidential candidates who have been linked to the deposed Duvalier family dictatorship.

Jan. 14—Leading Haitian politicians call for a general strike and a boycott of the presidential election, claiming that the government has predetermined the outcome of the election.

Jan. 17—An estimated 10 percent of all eligible voters participate in Haiti's military-supervised presidential election. Observers report little violence during voting.

Jan. 24—The electoral council releases the final results of the January 17 presidential election, naming Leslie Manigat, an opponent of the Duvalier regime, as the winner. The council says that Manigat received just over 50 percent of the vote and that 35 percent of the electorate participated.

HONDURAS

(See *Intl, Central American Peace Plan; U.S., Foreign Policy*)

INDIA

(See also *Sri Lanka*)

Jan. 5—New Delhi radio says that the Soviet Union has leased a nuclear-powered submarine to India.

Jan. 29—The Indian government places the state of Tamil Nadu under direct central government control because of violence in the state assembly.

IRAN

(See also *Intl, Iran-Iraq War; France; Syria*)

Jan. 5—Teheran radio reports that the length of service for all military conscripts has been extended by periods ranging from 4 to 28 months.

Jan. 7—In a Teheran newspaper, Iran's leader, Ayatollah Ruhollah Khomeini, criticizes President Ali Khamenei for a lack of faith in the role of Islam in Iran's government.

IRAQ

(See *Intl, Iran-Iraq War; Syria; U.S., Administration*)

IRELAND

Jan. 15—Former Foreign Minister Sean MacBride dies in Dublin at the age of 83. MacBride, a major figure in Irish politics since 1948, was 1 of only 2 men to win both the Nobel

and Lenin peace prizes.

ISRAEL

(See also *Intl, UN; Lebanon; U.S., Administration, Foreign Policy*)

Jan. 1—Planned demonstrations in the Gaza Strip, on the West Bank and in Jerusalem to mark the 23d anniversary of Palestine Liberation Organization (PLO) leader Yasir Arafat's first operation against Israel are halted when Israel increases its military presence in these regions.

Jan. 2—At least 21 people are killed when the Israeli army attacks several Palestinian bases in southern Lebanon; experts believe this latest offensive is a reprisal for the November, 1987, terrorist attack on an Israeli army base in which 6 Israeli soldiers died.

The Israeli army announces its intention to deport 9 Palestinians it has detained during the last 3 weeks of violence in the Gaza Strip and on the West Bank; it will be 3 to 4 weeks before the Palestinians are expelled because of legal appeals.

Jan. 4—Prime Minister Yitzhak Shamir defends the Israeli Army's decision to deport the 9 Palestinians.

Jan. 6—Israel says that it is "disappointed" that the U.S. voted in favor of a UN Security Council resolution criticizing Israel for its threatened deportation of 9 Palestinian activists.

Jan. 13—Despite international protests, Israel departs 4 Palestinians from the West Bank to southern Lebanon.

Israeli troops kill 2 more Palestinians on the West Bank and in Gaza, bringing the death toll in the violence that started in December, 1987, to at least 35.

Jan. 18—Defense Minister Yitzhak Rabin promises to bring the violence between Palestinians and Israeli soldiers in Gaza and on the West Bank down to "a manageable level."

Jan. 19—Israel invokes emergency laws in East Jerusalem for the 1st time in 21 years; additionally, food shipments to Palestinians in Gaza and on the West Bank are banned until a strike by Arab shopkeepers is halted.

JAPAN

(See also *U.S., Economy, Foreign Policy*)

Jan. 2—In Tokyo, Emperor Hirohito makes his first public appearance since his intestinal surgery in September, 1987.

Jan. 8—Japan says it will pay more of the expenses incurred by the operation of U.S. military bases in Japan.

Jan. 19—The Finance Ministry announces that Japan's trade surplus fell by 3.5 percent in 1987.

With exact figures not yet available, Japan reports a slight increase in its trade surplus with the U.S. in 1987.

Jan. 25—The Japanese government announces that it will impose diplomatic sanctions on North Korea because of North Korea's involvement in "organized terrorism." Japanese officials say they are convinced that North Korea was directly responsible for the sabotage of a South Korean airliner that crashed in November, 1987.

JORDAN

(See *U.S., Administration, Foreign Policy*)

KOREA, NORTH

(See *Japan; Korea, South*)

KOREA, SOUTH

(See also *Japan; U.S., Foreign Policy*)

Jan. 6—South Korea's main opposition party rejects an offer by its leader, Kim Young Sam, to resign in the wake of last month's presidential election defeat.

Jan. 15—At a news conference on national television, a suspect in the November 29 crash of a South Korean airliner, Kim Hyong Hee, says that she planted a bomb on the plane and confesses that she was a North Korean agent; South Korean

intelligence officials say that Kim Hyong Hee acted under the orders of the son of the President of North Korea in order to disrupt the 1988 Olympic games.

Jan. 16—South Korea places its armed forces on alert and threatens retaliation against North Korea after yesterday's revelations by bombing suspect Kim Hyong Hee.

Jan. 18—President-elect Roh Tae Woo says that he will include opposition party members in his Cabinet.

KUWAIT

(See *Syria*)

LEBANON

(See also *Israel*)

Jan. 20—The Shiite Amal militia ends a 3-year siege of 2 Palestinian districts in southern Lebanon; Amal leader Nabih Berri says that the action was taken as a show of support for the Palestinians in Israel.

MEXICO

(See *U.S., Foreign Policy*)

NICARAGUA

(See also *Intl, Central American Peace Plan; Costa Rica; U.S., Administration, Foreign Policy; Vatican*)

Jan. 17—Miguel Cardinal Obando y Bravo, the mediator in cease-fire talks between the Sandinista government and the contra rebels, says that concessions made by Nicaraguan President Daniel Ortega at the Central American summit meeting in Costa Rica were a step in the right direction, but "there is much further to go."

Jan. 18—Authorities release 7 opposition leaders who were jailed while President Ortega attended the Central American summit; 6 of the 7 detainees were arrested after they had returned from meeting with contra representatives in Costa Rica.

Jan. 19—Security forces detain and then release 5 more prominent opposition leaders.

Jan. 24—The Defense Ministry announces that its forces shot down a contra supply plane, killing all 11 people on board. Independent observers say that the Sandinistas used 2 Soviet-made surface-to-air missiles in the attack.

Jan. 25—In Managua, peace talks open between government officials and leaders of Nicaragua's Miskito Indians.

Jan. 28—In San José, Costa Rica, representatives of the Sandinista government and the contra rebels meet face to face for the 1st time.

Jan. 29—American pilot James Denby is released from prison and turned over to U.S. authorities; Denby was jailed by the government in November, 1987, after a contra supply plane he was flying was downed by the Nicaraguan army.

NORWAY

Jan. 14—Soviet Prime Minister Nikolai Ryzhkov arrives in Norway for discussions with Norwegian Prime Minister Gro Harlem Brundtland over commercial boundaries in the Barents Sea.

PANAMA

Jan. 10—Panama's de facto leader General Manuel Noriega returns after a 1-day trip to the Dominican Republic; General Noriega's departure triggered rumors of his abdication.

Jan. 28—Stephen Kalish, a convicted drug smuggler, tells a U.S. grand jury that General Noriega "became a full-scale co-conspirator" in his drug operation; Kalish says that General Noriega was provided with "millions of dollars" in cash and kickbacks in exchange for Noriega's help in drug deals.

PHILIPPINES

- Jan. 4—In the continuing trial of 36 army members and 4 civilians charged with the murder of political opposition leader Benigno Aquino in 1983, an airport worker testifies that he saw a soldier shoot Aquino while the exiled political leader was under military protection.
- Jan. 8—Armed forces chief of staff General Fidel Ramos says that 54 people, including 26 candidates, have died during the campaign for local elections scheduled for January 18.
- Jan. 19—In the results of yesterday's elections, about 70 percent of the candidates endorsed by President Corazon Aquino win; among the Aquino-supported candidates who were defeated are President Aquino's sister-in-law and her cousin.
- Jan. 21—Defense Secretary Rafael Ilete announces his resignation from the Cabinet; he is replaced by the armed forces chief of staff, General Fidel Ramos.

POLAND

- Jan. 1—The Soviet Union stops jamming the broadcasts to Poland of the Voice of America, Radio Free Europe and the British Broadcasting Corporation.

SAUDI ARABIA

- Jan. 5—*The New York Times* reports that on January 21, the government of Saudi Arabia will start imposing income taxes on foreign businesses and foreign workers.
- Jan. 6—The government says it will not implement the planned income tax proposals.

SOUTH AFRICA

- Jan. 6—In the homeland of Transkei, General Bantu Holomisa appoints himself head of the military and the government; General Holomisa assumed power in December, 1987.
- Jan. 25—Godfrey Sicelo Dlomo, a student anti-apartheid leader, is found shot to death in Soweto; Dlomo was recently detained by police because of his involvement in 2 foreign news documentaries on apartheid.

SPAIN

(See also *U.S., Foreign Policy*)

- Jan. 24—Prime Minister Felipe Gonzalez is reelected head of the Socialist party as a 3-day party convention ends.

SRI LANKA

- Jan. 25—President Junius Jayewardene travels to India to meet with Indian Prime Minister Rajiv Gandhi; the 2 leaders discuss the progress of the joint Sri Lankan-Indian effort to combat the Tamil separatists in Sri Lanka.

SURINAME

- Jan. 12—The National Assembly names Ramsewak Shankar as Suriname's next President; Suriname will return to civilian control when Shankar is inaugurated on January 25 and replaces Colonel Dési Bouterse as head of state.

SWEDEN

- Jan. 13—Sweden and the Soviet Union reach a fishing-rights agreement over an 8,400-square-mile area of the Baltic Sea that has been under dispute for the last 19 years.

SYRIA

- Jan. 7—Diplomatic sources say that Syria has persuaded Iran to forgo a wintertime Iranian offensive in Iraq and to stop attacks on Kuwait.

TAIWAN

(See also *China; U.S., Foreign Policy*)

- Jan. 13—President Chiang Ching-kuo dies of a heart attack in Taipei at the age of 77. President Chiang, the son of Chinese Nationalist Generalissimo Chiang Kai-shek, is succeeded by Vice President Lee Teng-hui.

TUNISIA

(See *Egypt*)

TURKEY

(See *Germany, West*)

U.S.S.R.

(See also *China; India; Norway; Poland; Sweden; U.S., Administration, Foreign Policy, Legislation*)

- Jan. 4—The news agency Tass reports that the Soviet Union has changed its legal code to give more rights to mental patients; this is the 1st major revision in the law in 27 years.
- Foreign Minister Eduard Shevardnadze arrives in Afghanistan for talks with Afghanistan's leaders about the potential withdrawal of Soviet troops.
- Jan. 6—In an interview with the Afghan press, Foreign Minister Shevardnadze says the Soviet Union wants to withdraw from Afghanistan by the end of 1988.
- Jan. 15—As part of an international forum, General Secretary Mikhail Gorbachev meets with dissident Andrei Sakharov in the Kremlin.
- Jan. 23—The Soviet newspaper *Pravda* reports that, as the result of a 5-year investigation of corruption in the Uzbek Republic, the government has discovered that at least \$6.5 billion in government funds is missing; several government ministers from the region have been arrested, including the son-in-law of the late President Leonid Brezhnev.
- Jan. 27—A Soviet newspaper reports that the government is abandoning the construction of a nuclear power plant at Krasnodar near the Black Sea.

UNITED KINGDOM

Great Britain

- Jan. 1—Previously classified documents released today reveal that the original report that detailed the causes of the 1957 Windscale nuclear accident was ordered destroyed by Prime Minister Harold Macmillan; the documents and additional sources say that Macmillan took this action because he feared that the report would threaten U.S.-British relations.
- Jan. 10—Prime Minister Margaret Thatcher's most important political ally, William Whitelaw, resigns from his posts as Deputy Prime Minister and leader of the House of Lords for health reasons; Lord Whitelaw will be replaced by his deputy, John Belstead.
- Jan. 23—By a 6-1 margin, the Liberal party approves its merger with the Social Democratic party.

Hong Kong

(See also *U.S., Foreign Policy*)

- Jan. 2—The former chairman of the Hong Kong stock exchange, Ronald Li, and 2 of his former aides are arrested and later released on bail as part of an investigation of suspected corruption in the exchange.

UNITED STATES

Administration

- Jan. 5—Postmaster General Preston R. Tisch announces his resignation to take effect this spring; Tisch says that he will return to private industry.
- Jan. 7—President Ronald Reagan nominates Major General William F. Burns as director of the Arms Control and Disarmament Agency to succeed Kenneth Aldeman.

President Reagan nominates James Stephens as chairman of the National Labor Relations Board, succeeding Donald L. Dotson.

Jan. 11—In Chicago, U.S. District Court Judge Frank McGarr fines the Amoco Corporation \$85.2 million in damages to pay for a 1978 oil spill from the tanker *Amoco Cadiz*, which ran aground off the coast of France; France claims that the 68-million-gallon spill of crude oil devastated over 100 miles of beaches and fishing villages; Amoco says it will appeal the decision.

Jan. 15—President Reagan undergoes a medical checkup at Bethesda Naval Hospital; the President's doctors say that "no recurrence of cancer" of the colon was found, and President Reagan is pronounced in excellent health.

Jan. 16—Fred C. Iklé, the undersecretary of defense for policy, resigns his post.

The National Resources Defense Council, a private scientific group that favors a nuclear test ban, releases a 61-page study. The report discloses that at least 117 secret U.S. atomic underground tests of a kiloton or less have taken place over the past 25 years; the Defense Department will neither confirm nor deny the findings.

The U.S. Postal Service announces that in 30 to 60 days, its services will be cut by 4 hours a week because of federal budget-cutting projections.

Jan. 21—The Justice Department issues a report claiming that 50 to 75 percent of those involved in serious criminal acts show a pattern of illicit drug use.

The Federal Aviation Administration (FAA) orders airlines to refrain from assigning two "relatively inexperienced pilots" to the same flight; the agency also invokes stricter maintenance regulations.

Jan. 22—In Chicago, a U.S. Appeals Court overturns a law that allows a judge to appoint Special Prosecutors in cases concerning alleged criminal activity by members of the executive branch; the 2-1 decision restricts such appointments to the Justice Department or the President. This decision casts doubt on the recent perjury conviction of former presidential aide Michael Deaver.

Jan. 26—President Ronald Reagan gives his 7th State of the Union message to a joint session of Congress and to the American people.

Jan. 27—In documents obtained under the Freedom of Information Act, it is revealed that since 1981 the Federal Bureau of Investigation (FBI) has conducted extensive surveillance of U.S. citizens and groups opposed to the Reagan administration's policies in Central America.

Jan. 29—The Department of Health and Human Services issues a ruling to take effect March 3 that will prevent any federally funded family-planning program from providing pregnant women with information about abortion, abortion providers or possible legal methods to obtain an abortion.

President Reagan orders an internal review of the recently disclosed allegations of FBI surveillance of domestic groups opposed to the administration's Central America policies.

Jan. 30—The *New York Times* reports that Special Prosecutor James McKay informed the White House on January 29 that Attorney General Edwin Meese 3d had an important and continuing role in promoting the construction of an Iraqi oil pipeline through Jordan; the backing for the project apparently involved possible payments to Israeli officials and others to further construction; the project, which was abandoned in January, 1986, may have violated the Federal Corrupt Practices Act.

Economy

Jan. 5—The New York Stock Exchange's Dow Jones Industrial Average closes at 2,031.50, its highest level since October 16.

The U.S. dollar rises to 127.90 against the Japanese yen

and 1.632 against the West German mark; central banks have been supporting the dollar heavily.

Jan. 6th—The Commerce Department reports that U.S. automobile and truck sales totaled 15.1 million units in 1987, their 4th highest total ever.

Jan. 8—The Labor Department reports that the nation's unemployment rate declined to 5.7 percent in December, the lowest level in almost 10 years.

The Presidential Task Force on Market Mechanisms issues its report; among other points, the report cites large-scale computerized trading (so-called program trading) as a major contributor to the 508-point drop in the Dow Jones Average on October 19, 1987. The task force, headed by Nicholas Brady, also suggests regulations to deal with the volatility of the nation's capital markets.

Jan. 13—The American Petroleum Institute announces that U.S. oil production dropped 4.5 percent in 1987, to the lowest level since 1974.

Jan. 14—The New York Stock Exchange announces a 6-day experiment in curbing computer trading; the exchange asks major firms to forgo using the Direct Order Turnaround System when the Dow Jones Average rises or falls by 75 points during a trading session.

Jan. 15—The Commerce Department reports a significant drop in the U.S. foreign trade deficit, to \$13.2 billion in November.

The Labor Department reports that its producer price index dropped 0.3 percent in December.

The Commerce Department reports that U.S. industrial production rose 5.2 percent in 1987, the sharpest gain since 1984.

Jan. 19—The Federal Reserve Board reports that U.S. industry operated at 82.1 percent of capacity in December, its highest level in 8 years.

Jan. 20—The Commerce Department reports that housing starts fell 16.2 percent in December and about 10 percent in all of 1987 to 1.62 million units for the year, the worst performance in housing starts since 1982.

The Labor Department reports a 0.1 percent rise in its consumer price index for December.

Jan. 27—The Commerce Department reports that the nation's gross national product (GNP) grew at an annual rate of 4.2 percent in the last quarter of 1987; the increase is credited to unsold inventories and a large reduction in consumer spending.

Foreign Policy

(See also *Intl. Central American Peace Plan, UN; Canada; Colombia; El Salvador; Israel; Japan; Nicaragua; Panama; United Kingdom, Great Britain*)

Jan. 1—President Reagan and Soviet General Secretary Mikhail Gorbachev exchange televised New Year's messages to the people of each other's country.

Jan. 2—President Reagan and Canadian Prime Minister Brian Mulroney sign the 220-page U.S.-Canadian free trade agreement; it must receive legislative approval in both the U.S. and Canada.

Jan. 6—The Justice Department announces the indictments of 9 individuals in the 1985 murder of a Drug Enforcement Administration agent in Mexico; 3 of those indicted were Mexican police officers and 3 others are in custody in the U.S. on other charges.

Defense Secretary Frank Carlucci meets with the U.S. commander and Arab leaders in the Persian Gulf area to ascertain if any changes in force disposition or tactics might become necessary in the region.

Jan. 7—Secretary of State George Shultz calls for a firm Soviet schedule for withdrawal of Soviet troops from Afghanistan and for a Soviet pledge not to send further military aid to the

Afghan army; U.S. military aid to Afghanistan's rebels would also stop.

Jan. 11—In Ottawa, Secretary Shultz and Canadian Secretary of State for External Affairs Joe Clark sign a protocol amendment to an extradition treaty between the U.S. and Canada in an effort to close some loopholes in the treaty.

Jan. 12—State Department legal adviser Abraham Sofaer says that the department believes that closing the PLO mission to the UN would be a violation of international law and would leave the U.S. open to a lawsuit in the International Court of Justice in The Hague.

Heads of the U.S. and Soviet academies of science sign a cooperation agreement for scientific research.

Jan. 13—Japanese Prime Minister Noboru Takeshita meets with President Reagan in Washington, D.C.; Takeshita says that Japan will attempt to cut its interest rates and will work with the U.S. to halt the decline of the dollar.

Jan. 14—The Defense and State Departments announce the withdrawal, at Spain's request, of 72 U.S. F-16 jet fighters based in Spain near Madrid.

Jan. 15—The U.S. and Spain agree on new military arrangements that will reduce the U.S. military presence in Spain; these arrangements will end U.S. military and economic aid to Spain.

Jan. 19—President Reagan notifies Congress of his disbelief in the compliance of Nicaragua with the Central American peace plan; under law, this will permit him to renew shipments of arms to the contras, which had been held up during the recent meeting of the 5 Central American Presidents.

Jan. 23—Several Arab diplomats, including 3 members of the Arab League, ask the State Department to increase U.S. pressure on Israel to stop the violence against Palestinians in Israel.

Jan. 26—President Reagan approves a plan to ask Congress for \$36.25 million in aid for the Nicaraguan contras; \$3.6 million for weapons would be held in escrow until March 31 and released only if the contras and the Nicaraguan government do not reach a cease-fire agreement by that time.

Jan. 27—Egyptian President Hosni Mubarak arrives in Washington, D.C., for meetings with U.S. officials and with President Reagan on January 28; he will discuss military, economic and political issues during the 3-day visit.

Jan. 29—The U.S. will end special trade preferences for Taiwan, South Korea, Hong Kong and Singapore to take effect January 2, 1989.

The State Department reports the ending of military grants to all countries except El Salvador, Honduras and Guatemala and sharp reductions in security assistance grants to most other recipients.

Jan. 30—Philip C. Habib, formerly special presidential Middle East envoy, meets in Amman with Jordan's King Hussein to discuss new peace initiatives in the Middle East.

Labor and Industry

Jan. 22—Eastman Kodak Company acquires Sterling Drug Incorporated for \$5.1 billion.

Jan. 28—Public Service Company of New Hampshire files for bankruptcy under Chapter 11; the company operated the Seabrook nuclear power plant, which never opened for operation because of legal difficulties; the New Hampshire House of Representatives refused to grant emergency financial aid to the company on January 27.

Legislation

Jan. 6—President Reagan signs legislation guaranteeing up to \$4 billion in U.S. guaranteed bonds to support the Farm Credit System, which provides credit to U.S. farmers.

Jan. 25—The 2d session of the 100th Congress convenes after its Christmas recess.

Jan. 26—Senator Jesse Helms (R., N.C.) calls for an Intermediate Nuclear Force treaty that does not demand the complete destruction of the missile warheads.

The General Accounting Office (GAO) issues a report claiming that the breakdown in 9 of the 12 major computer systems used in major stock trading added "uncertainty and confusion" to the stock market decline of over 500 points on October 19, 1987.

Jan. 27—The Senate Judiciary Committee unanimously approves the nomination of Judge Anthony Kennedy to the Supreme Court.

Military

Jan. 22—Martin Marietta is named as the prime contractor to build a simulation complex for testing the Strategic Defense Initiative (SDI) program.

Science and Space

Jan. 5—New flaws in the redesigned shuttle booster rocket are observed; the flaws permitted hot gasses to reach a critical O-ring seal.

Jan. 26—In a study to be released January 28 in the *New England Journal of Medicine*, it is reported that one aspirin every other day may reduce by almost one-half a person's risk of a heart attack or death from a heart attack.

Jan. 27—The National Aeronautics and Space Administration (NASA) reports that the 1st new shuttle flight will be delayed until August 4, 1988, because of serious and continuing technical problems.

Supreme Court

Jan. 11—The Supreme Court returns from a 4-week recess.

Jan. 13—Voting 5 to 3, the Court reverses a lower court and rules that public school officials have wide powers not restricted by the first amendment to censor school newspapers and "school-sponsored expressive activities."

Jan. 14—U.S. Appeals Court Judge Robert Bork announces his resignation, effective next month, to counter what he calls "an essentially unanswered campaign of misinformation and political slogans" that led the Senate to reject his nomination to the Supreme Court.

Jan. 19—Without comment, the Court declines to hear a request by Lieutenant Colonel Oliver North to block Special Prosecutor Lawrence Walsh's investigation of the Iran-contras arms-hostage deal.

Jan. 20—The Court upholds a lower court decision and forbids a public school to remove an emotionally disturbed and disruptive student from school for more than 10 days without the permission of a judge or the student's parents, even though the school claims that it is protecting other pupils from physical harm.

VATICAN

Jan. 5—The Vatican says that Pope John Paul II will visit Austria in June and will meet with Austrian President Kurt Waldheim.

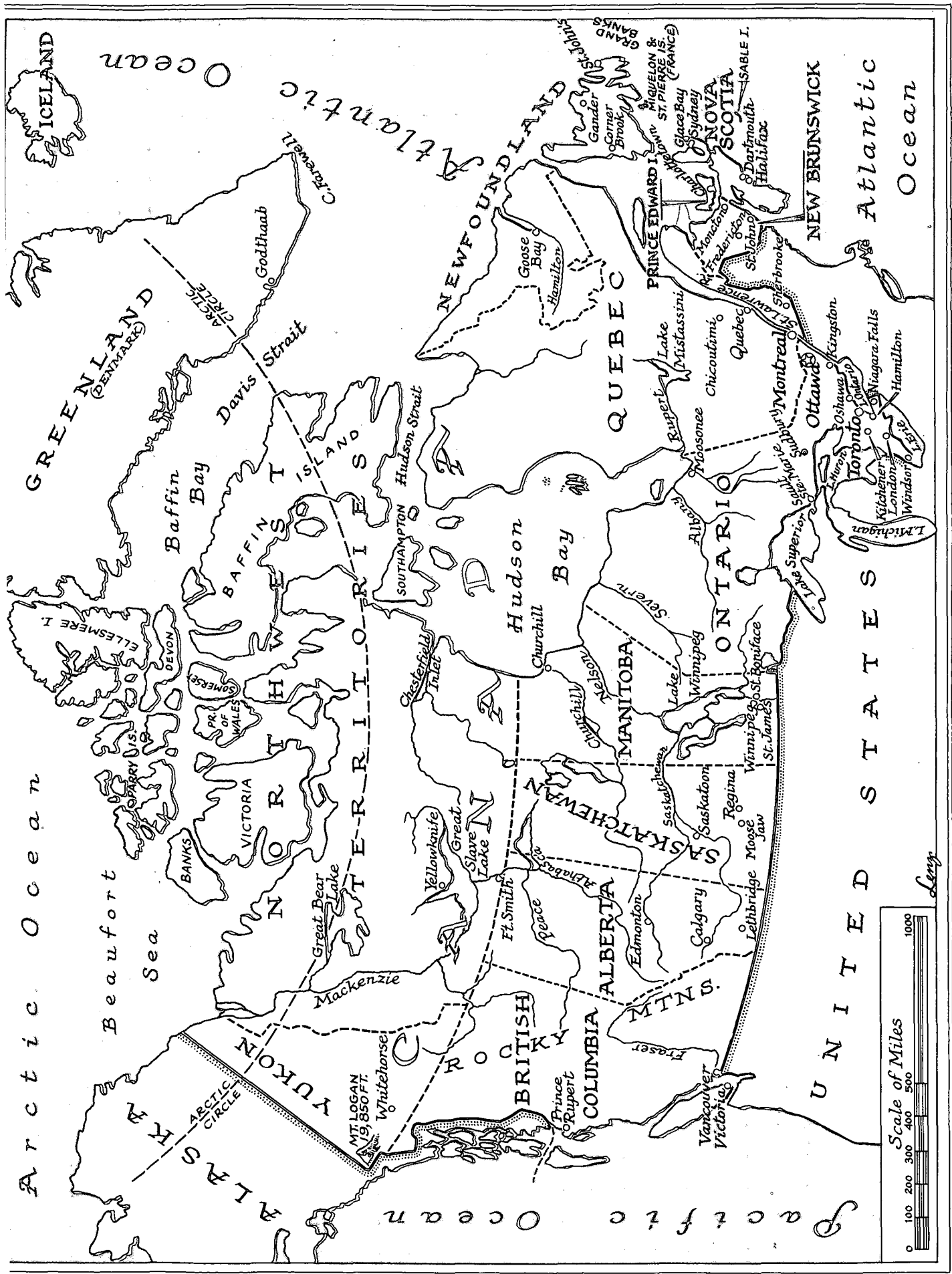
Jan. 29—Pope John Paul and Nicaraguan President Daniel Ortega meet for 30 minutes at the Vatican.

VIETNAM

(See *China*)

ZIMBABWE

Jan. 2—President Robert Mugabe names a new 27-member Cabinet and appoints opposition leader Joshua Nkomo senior Cabinet minister, the 3d highest position in the government.



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